# The Magazine of Wall Street

## and BUSINESS ANALYST



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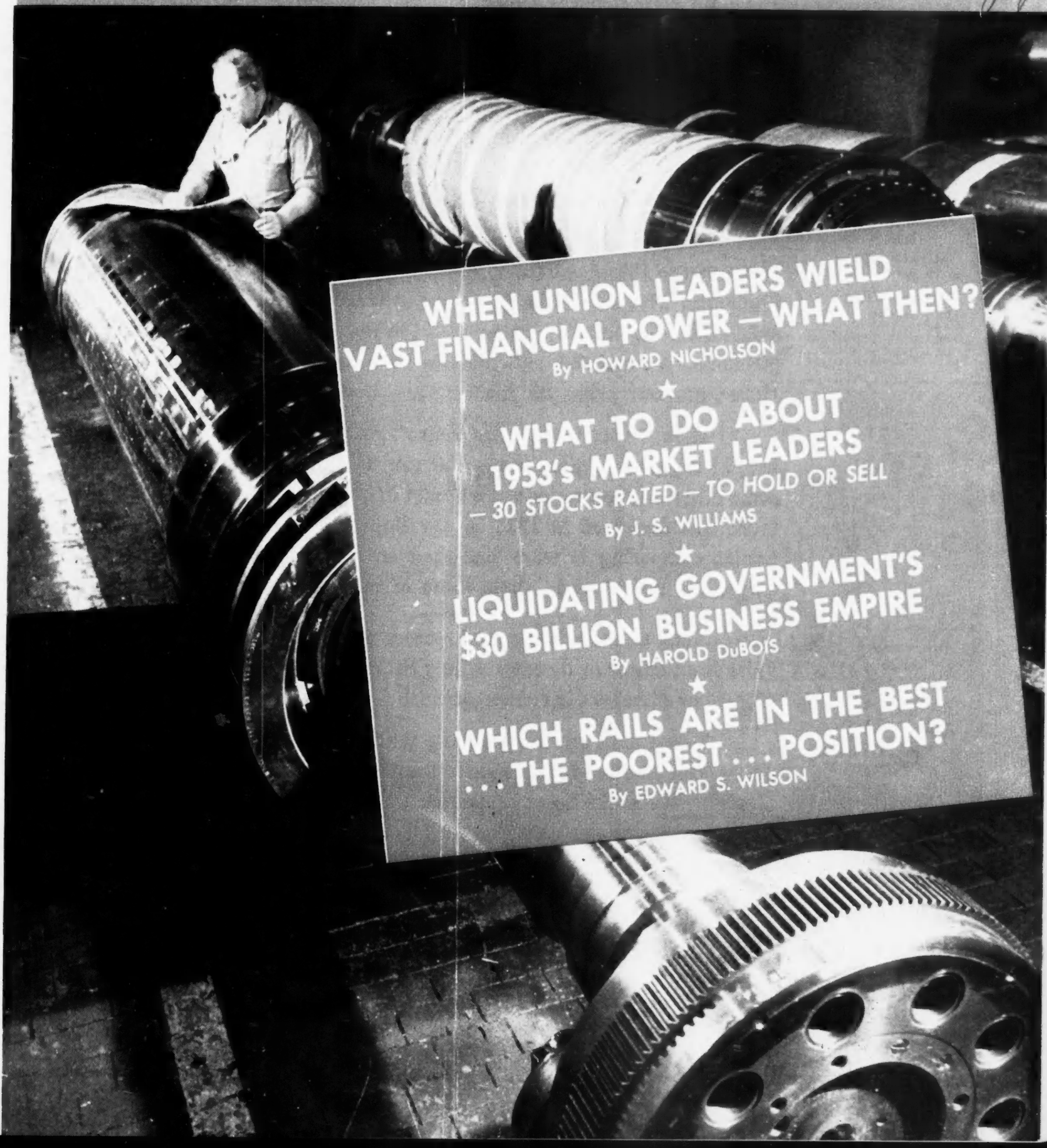

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By EDWARD S. WILSON

# THE MAGAZINE OF WALL STREET
## and BUSINESS ANALYST

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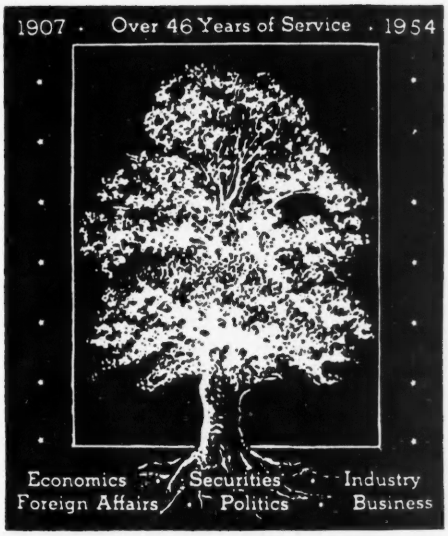



# The Trend of Events

**POLITICIANS AS ECONOMISTS** . . . Normally, a Congressional election year produces little excitement. This year, the political heat is already intense, with both parties assuming bitterly antagonistic attitudes. The reason for this is not difficult to find. The Republican party is in power for the first time in twenty years and cannot afford a defeat at the polls next November without being cast back, perhaps for a very long time, into the outer limbo from which it finally emerged. This is a thought which naturally brings a shudder to every Republican politician.

With so much at stake, it is inevitable that any and every conceivable means that might bring victory in the next elections is and will be used by the party technicians. By the same token, their adversaries are prepared to use similar methods. Unfortunately, both factions have already taken a stance in a field where politics should have no place, that is to say, in economic forecasting. Some democratic leaders have exposed themselves to the charge that in an attempt to discredit the Administration, they are willing to go so far as foment a pessimistic psychology among the public by presenting a false or at least highly exaggerated picture of current economic trends. But, in order to disprove these unnecessarily bearish statements, Republican leaders, on the other hand, have had the bad judgment to paint an overly optimistic picture in the face of definite evidence that many uncertainties face business.

It is unfortunate that political acerbities should have reached the point where extreme views on business conditions are exchanged without a serious effort to relate them to the facts. If we are to come to grip with our problems which are real enough, we must dispense with highly emotional political oratory on economic affairs so that we can proceed with a calm and objective appraisal, which is the only sound basis for constructive action.

**ABUSING UNION TREASURIES** . . . Dave Beck and Walter Reuther, two of our most aggressive labor potentates, are going around the country crying depression, and asking government and business to take up the slack, but saying nothing about the huge sums stashed away in their treasuries and those of other great labor unions. Instead of issuing destructive statements, union leaders should take constructive action and use the immense accretions at their disposal for the real purpose for which they were intended—for the benefit of workers in need of assistance and to tide them over any period of adjustment. At the same time, in view of their fat treasuries, they could well afford to cut the exhorbitant dues now collected in order to give their members the added buying power needed.

In a word, the unions should now act constructively to maintain our economy instead of continuing to think in terms of becoming "capitalists" on their own. We call attention to an important article in this issue on the vast financial and economic power

*We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!*

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS : : 1907—*"Over Forty-six Years of Service"*—1954

wielded by labor union leaders which exposes their plans and ambitions to use rapidly accumulating funds in their hands to actually own and control large segments of American industry. This is not a legitimate end, and treasury funds should not be employed for this purpose. Certainly, the working man should not be exploited to provide labor czars with an opportunity to acquire more economic power than is already good for the country, or for labor itself.

**FAIR TRADE PRACTICES** . . . None too soon, the Fair Trade Practices Act (McGuire Act) has been receiving needed support from the courts. Among other instances of legal affirmation, the U. S. Supreme Court's rejection of an appeal (Lilly vs. Schwegman) has, in effect, confirmed the constitutionality of the Act.

This situation is of vital import to manufacturers whose markets have become vulnerable to onslaughts of "bootlegging" operations by so-called discount houses. There are approximately 10,000 such firms in this country and it is estimated they do a business of from $3 to $5 billion annually. "Trade-name" goods of established manufacturers account for a good deal of this business. Since most of it is sold at discounts of 20% and up, it is obvious that manufacturers, beset by this cut-throat competition, find it difficult to have their list prices maintained by their regular trade cannels.

While many manufacturers feel that punitive action by the courts against offending firms may tend to slow down the volume of illicit trade, some believe that they can increase their insurance by taking police action on their own account. This has taken the form of hiring detectives to check on the activities of offending discount houses. Other manufacturers are either realigning jobber outlets or insisting on stiffer terms from jobbers in order that discount houses trading with them be shut out from access to merchandise.

The situation has investor interest, as well as for manufacturers, wholesale houses, dealers and retilers. The price level is now somewhat more sensitive to inventory liquidation in consumer goods. If too large a volume of trade goes to the discount houses, manufacturers would have to consider lowering their prices in order to help legitimate trade channels maintain their competitive position. This could have a decided effect on profit margins. It is for this reason that important manufacturers, especially of consumer durables, have recently become much more energetic than they have been in enforcing fair trade practices.

**WHAT'S BACK OF LOWER REDISCOUNT RATE?** . . . The reduction in the Federal Reserve rediscount rate to 1¾% from the previous rate of 2%, established January, 1953, is official recognition of the actual market for short-term loans. The rediscount rate obviously had been out of line, a fact emphasized with 90-day Treasury bills, for example, now selling at less than 0.9%.

More important than the technical adjustment which has taken place is the broad implication of a) recessive tendencies in demand for credit and b) the broadening of recent Federal Reserve policies to provide further assurance to business that ample credit would be available in a downward cycle.

The reduction in the rediscount rate may also be accepted as recognition by officials that an important increase in demand for credit is not in sight during the near future. Changes in the basic discount rate are not made lightly since they have a tendency to affect the entire structure of credit and money rates. For that reason, the new rate may be accepted as an indication that the Reserve Board authorities expect money rates to remain low for a considerable period in line with lessened demand for business loans arising from the slower pace of business itself.

**LEGAL PITFALLS IN FOREIGN SECURITIES** . . . A subscriber has written to complain of legal difficulties arising from certain phases of his ownership of shares in a Canadian company. Many investors are not aware that financial obligations of an unusual kind may be incurred in the ownership or disposal of securities listed exclusively on foreign exchanges. Since these securities and their companies are governed by foreign law, it is obvious that the American investor may find himself trapped by potential liabilities of whose existence he may be oblivious. Falling afoul of such circumstances can produce an unpleasant surprise. For that reason, it is incumbent upon the investor to examine his legal status in connection with present or proposed ownership of foreign securities.

**INFORMATION, PLEASE** . . . This is an annual report season. Most corporations ended their years December 31, and are now preparing the accountings they owe their stockholders.

That area is information. First and foremost, the report should tell the owner how his business has been conducted during the year just ended. It should tell him without equivocation, with only such reservations as may be required to protect competitive position. These needed reservations are fewer than some managements seem to believe.

With the spread of stock ownership, there are more small holdings of stocks. Their owners need information in a more nearly pre-digested form than do large investors and their analysts. To meet this need, annual reports of late have gone in for an amazing variety of charts, pictures, cartoons and similar visual devices. There are all very well, as long as they are not used as substitutes for the plain facts. Clarity begins with the statement itself; when that has been decided upon the artist or typographer may be called in to make the data easier to assimilate.

The ideal annual report has an index, and then a brief comparative table of the year's and the previous year's results: Revenues—the measure of the company in industry; pre-tax income—the measure of operating efficiency; taxes, net income—what the stockholder's stewards earned for him; earnings per share, dividends, earnings reinvested, capital expenditures and depreciations.

To these essentials it is well, in these days when every interest but the stockholder's has its loud pressure group, to list taxes per common share and payments for direct pay roll and employee benefits. Both these entries point up the stockholder's place in the current economy (*Please turn to page* 648)

# *As I See It!*

By E. D. KING

## DIPLOMACY IN REVERSE

However future historians may dispute about details they will undoubtedly agree that Churchill's proposal last Spring that three-power discussions take place at the highest levels, i.e. between Eisenhower, Churchill and Malenkov, inevitably led to a situation which the Russians could manipulate to their advantage. The fact is that the Four-Power Conference in Berlin which, in fact, was the offspring of Churchill's original plan, has given the Soviet government the opportunity it has been looking for—to attempt a first breach in the Western alliance with some hope of success. General Eisenhower recognized the danger at once when the British Prime Minister made his first gambit to commence negotiations with the Russians. However, the President was then unable, on account of world opinion which the Russians had furtively helped to shape, to appear publicly in opposition to sending an invitation to Moscow to a Four-Power Conference despite his obvious lack of faith in the outcome.

**How Did the Girl Friend Get in There?**


—Yardley in The Baltimore Sun

The specific trouble with the Four-Power Conference which Churchill did not foresee, and which the President did, was that it has presented the Russians with a concrete opportunity to exert pressure on France, the weakest member of the Western Alliance. They are in a position to do this through their control of the Communist aggressors in Indo-China. They can play on the anxiety of the French over their position in that bitter seven-year war by offering them the bait of an armistice with Ho-Chi-Minh. The price for this, of course, would be that France stay out of the European Defense Community, which would split the West.

Furthermore, Moscow knows that any deal by France with the Communists in Indo-China would sooner or later place the three associated states firmly in the grip of the Kremlin. As Indo-China is the rice bowl of Asia, it is not difficult to imagine the enormous economic leverage that the Soviets could exert on the rest of Southeast Asia which is particularly vulnerable to communist absorption. Nor is Japan immune since she too is dependent on Indo-Chinese rice.

The Four-Power Conference has also given the Russians a magnificent opportunity to get the Chinese Reds into the picture. Peiping has a great deal to say on whether the war in Indo-China is to continue or not. Moreover, Mao-tse-Tung has been blocking a resumption of peace negotiatiations in Korea and we may be forced to make concessions to get him back into the act. Thus, in one way or another, it is by no means impossible that we will be negotiating with the Chinese Communist government on a broader scale than could have been anticipated, only a short time ago — very much against our will, to be sure, but nevertheless an eventuality we should be prepared for.

No one disputes the fact that it is better to hold conversations with the Soviet government than to engage in atomic war. But we should entertain no illusions that we are certain to emerge victorious from the conference table. The Russians, through their manipulation of their satellites and their dominance in Red China, are in possession of vital levers of power. They can move these nations as pawns on the international chessboard in a way that is not open to us, despite our great influence in the free world.

The Four-Powers Conference at Berlin was supposed to have brung the unification of German closer. All that it seems to have accomplished is to fasten Russia's grip on East Germany which is precisely what the Soviets started out to do in the first place.

In our natural anxiety for the world to get back on a more stable basis and to end the threat of a devastating atomic war, we must, indeed, be prepared to negotiate but in doing so we must be careful not to yield vital positions in order to gain temporary respite. This is the mistake Sir Winston made in his generous move last spring to reopen negotiations with Moscow. We must be sure that we enter future negotiations at least as well prepared as the Russians have seemed to be.

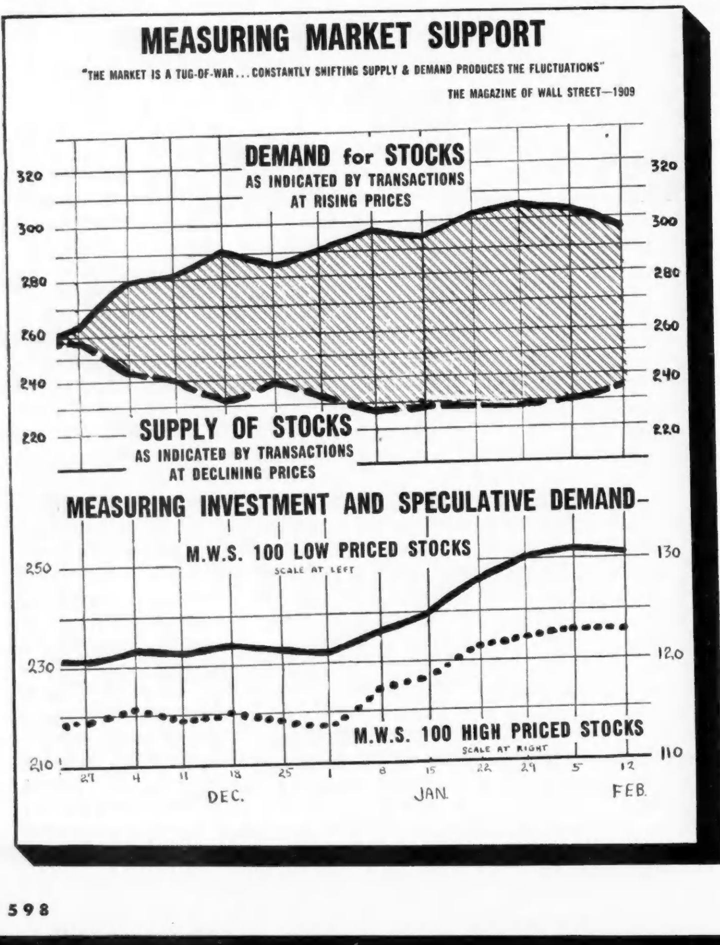
# Why Is Market Disregarding Business Outlook?

**The market met with increased supply last week, but absorbed it with little net change in the averages. Favorable financial factors have been emphasized for some time, adverse business factors relegated to the background. More attention may have to revert to the latter. Hold ample reserves. Continue close selectivity in portfolio management.**

**By A. T. MILLER**

In terms of the daily averages, the stock market level was not greatly changed on balance over the last fortnight. Moderate further gains were scored in the first week of February, sufficing to take the Dow industrial average to a new 1953-1954 high, a fraction above the major top recorded over a year ago; and also to lift utilities slightly above their prior top level of last March. In the face of shrinkage in traffic and earnings, rails extended the recovery phase begun last September, but the average remains considerably under its bull-market high of late 1952.

The going on the upside became harder last week, as reflected in mild recession or sidewise drift in the averages until late in the week, when enough improvement developed to leave them, for all practical purposs, at the top of the year's range to date. Investors, by and large, remain more willing to hold or buy stocks than to sell. This does not necessarily assure extenion of the rise, although that is certainly possible; nor does it rule out possibility of a sell-off at almost any time.




### Time for Conservatism

The advance from the September lows has been large, has run for five months without more than minor correction, excepting a four-week December correction confined to rails; and it has put the industrial and utility averages back to historically advanced levels above which the going may be considerably more formidable than it has been up to now. In this view, investors have been emphasizing the bright side of the picture for a fairly extended time, while ignoring business recession. The technical position of the market, and what can be called the "technical position" of investment psychology, have inevitably become somewhat more vulnerable. It would be prudent, we think, to allow for possible cancellation of a material portion of the post-September rise in due time.

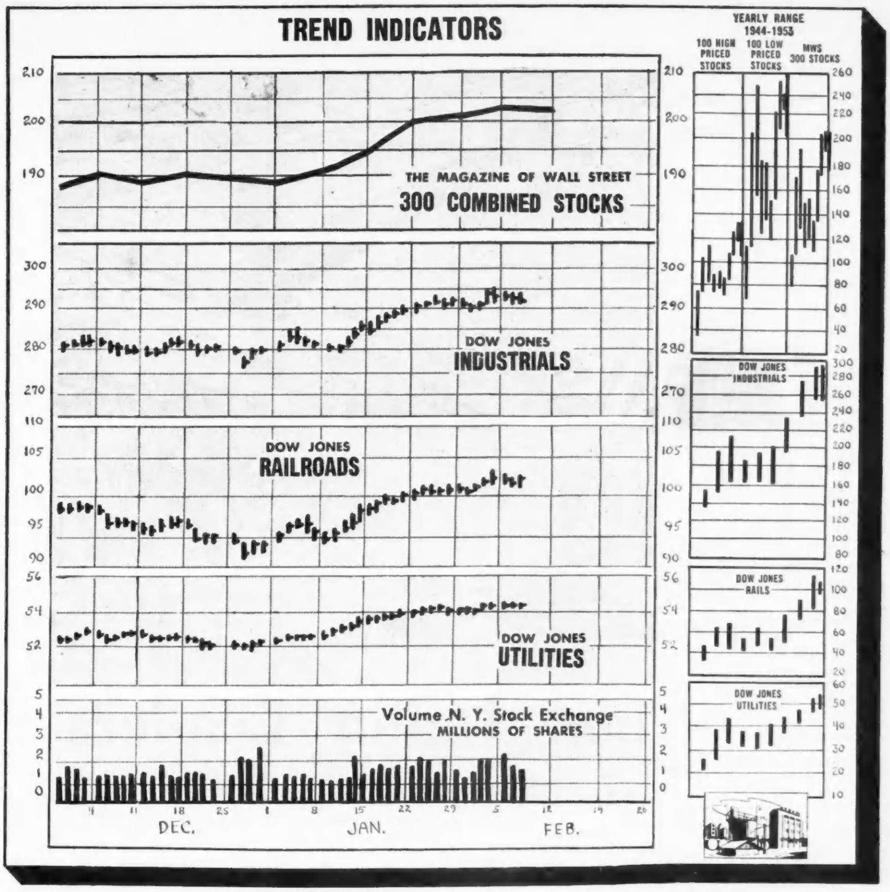
Even though trite, it is necessary to emphasize that this has remained a "market of stocks", particularly in the case of the industrial list, with the "average" merely ironing out notably wide divergences in behavior of individual stocks. When the "average" does little more than move sidewise, as last week, the cross-currents within the market stand out all the more. Stocks in fair numbers continue to make new highs up to this writing; stocks in greater numbers are nowhere near their earlier, and in some case very old, highs. There is a continuing preference for "institution-grade" income stocks and growth stocks, especially issues with satisfactory-to-good 1954 earnings prospects, allowing for EPT lapse. There is also a scattering of strength in special-situation speculative stocks, without any common pattern of selectivity. Among

these are N. Y. Central and RKO. Others acting better have been Montgomery Ward and Chrysler (moderately). Most chemicals have been sluggish.

Of course, nobody buys or sells the Dow averages or any stock-price index. The fact that this is a more selective market than in older times, with ever changing cross currents, has been and will continue to be taken fully into account in the security recommendations made on other pages of the Magazine.

In correspondence with us, many clients ask: Why has the market been ignoring business recession? There are a number of reasons; and since they necessarily become less effective as rising stock prices discount them, the question also becomes: How much longer can the market ignore business recession?

To begin with, after nearly nine months of decline, an over-sold position – a level of general under-valuation of earnings and dividends – was reached last September, with representative medium-to-good-grade industrial stocks at about 8 times 1953 earnings, at perhaps something like 9.5 times 1954 earnings, assuming for the moment that the general profit shrinkage this year will be held to around 15%, which seems to be the consensus; and on an average yield basis of close to 6.5%. At that level, more business recession had been discounted than had occurred, or than has yet occurred. Hence, there was a basis for a market recovery swing of some proportions.




It was aided by emphasis on the then nearing lapse of EPT; by growing belief that 1954 business recession would be moderate enough to leave earnings, even though reduced, generally well above dividends, and hence that total 1954 dividends probably would not differ importantly from 1953's record level; by the Administration's easy-money moves, spurring cyclical rise in the bond market and making dividend yields proportionately more attractive than bond yields; and by increased confidence generated by advance indications of the Administration's constructive tax and general-economic policies.

### The January-February Rise

Nevertheless, the market rise showed petering-out tendencies through much of December, but assumed renewed vigor for some weeks thereafter. The latter probably can be credited to the following combination of factors: more definite promise, via approval by the House Ways and Means Committee of substantial tax credits for dividend income; a further and stronger rise in the bond market; rebounds in many depressed stocks, relieved of late-1953 tax selling; the detailing of the Administration's constructive program in the President's January messages to Congress; optimistic Administration statements on business prospects; some apparent flattening out of business shrinkage in January; and the usual bullish sentiment which the market itself generates, at least temporarily, in an extended upswing which assumes new vigor after lagging for a while.

At the present level, average industrial yields have been pared to about 5.6%; and the price earnings ratio has risen to about 9.8 times 1953 earnings and to perhaps 11.0, or a little more, times possible 1954 earnings. In these terms, the level is still not an extreme one. Yet the favorable side of the coin has been substantially discounted, making the market more vulnerable to normal technical correction, to any unexpected bad news, to even a hint of moderately less favorable news from any quarter. Much "hay" has been made out of the proposed schedule of three-year 5% to 15% tax credits for dividend income. What if this is not enacted or if the benefits are scaled down? There are current press reports that the House Ways and Means Committee is wavering, fearful of the political consequences of the Democratic charge that this tax change favors "the rich". Again, while the market over-discounted business recession at the September lows, it is 37 points higher for the industrial average, 13 points higher for the rail average (*Please turn to page* 648)

# When Union Leaders Wield Vast Financial Power—*What Then?*

By HOWARD NICHOLSON

Money capital is merely hoarded labor some economist or poet (or both) said long ago. For most of the world's history these two major elements of production have been in different and opposing hands. In modern times this has been so much the case that caricaturists have drawn one figure to represent Labor and another and very different one to represent Capital. It was Benjamin Disraeli who said that there are two races, the rich and the poor; it was the Count Tolstoy who said that the rich man will do everything for the poor man but get off his back!

In the main the picture has been so accurate for so long that there has been a general acceptance but today a curious sort of evolution is going on in the United States which, conceivably, could develop into a revolution. The magic of the multiplication table is building up, in the hands of organized labor, what only the day before yesterday would have been regarded as an empire of wealth even in the hands of Morgans and Rothschilds. Almost unrealized, this aggregation of vast capital has been growing like a coral reef below the general economic surface. Only recently has it emerged into full view.

### A Radical Change

To what extent the rank and file of organized labor, whose earnings have made possible these great accumulations, comprehend what is taking place is a matter for conjecture. It is quite certain that the more astute leaders are fully cognizant of the situation and have laid far-seeing plans for a new order which may in a surprisingly short number of years burst upon an astonished nation!

Thirty years ago this kingdom of capital was offered to organized labor; that is, the opportunity to achieve it was offered but for a variety of reasons, the offer was turned down. Probably the principal reason was human nature in the shape of an immediate selfishness. A second and, perhaps equally governing reason was a lack of sufficiently compelling leadership. The fact remains that the opportunity was offered and then, partially because of the rejection, everything was swept away in the Great Depression.

Today a few labor leaders who have studied the period have builded upon the lesson involved and are determined that the opportunity will not again be rejected. They already have a firm grasp on the first rungs of the ladder and it scarcely seems likely that they will let go!

For the accumulated capital of labor unions today is approximately $1,500,000,000. In present-day money terms that is no very vast sum considered alone. What is of vital importance is that a full comprehension now is in the minds of the leaders as to how such a sum has been accumulated in a comparatively short time and how it can continue to accumulate at, of course, a steadily accelerating pace.

One of the conspicuous differences in the manner

in which Americans and Englishmen have counted wealth must point the moral here. In the United States it long has been customary to say: "That man is a millionaire." In England it long was the custom to say: "That man is worth ten thousand pounds a year." It was realized that it was not so much the money in hand that was important, that fixed a man's place, but rather the continuing flow. So it is with the American labor unions. Tomorrow they could toss away their billion and a half and still be in an amazing capital position. For their income is continuous and fabulous!

The United Mine Workers of America is an organization which has had most publicity so far as its finances are concerned, its pension fund, now standing at about $98,000,000 being a sort of minor wonder of the industrial world. This is interesting because the fund is not so much created by the workers as by their mine-owners. To be sure, were there no work there would be no fund but it is the owner who pays so much on every ton of coal mined; not the worker. Then, too, the Mineworkers have some $35,000,000 in cash and bonds.

And right there it is advisable to point out the invisible manner in which a fundamental shift is taking place. Some years ago the Mineworkers, with complete absence of any fanfare, purchased and moved into the large and stately edifice of the University Club on what then was the fashionable McPherson Square, at Washington. The mansion of the late John R. McLean was across the street and across the Square had stood the only Vanderbilt mansion in Washington. The University Club had been forced to move out of its house. The university men could not afford to keep it up; the miners could!

The Electrical Workers Union, an American Federation of Labor affiliate, quite recently used some of its net worth of some $28,000,000 to purchase one of the most valuable sites at the National Capital on the edge of the business district. At Sixteenth Street (for a while called the Avenue of the Presidents) and Massachusetts Avenue at Scott Circle the Electrical Workers have recently completed a vast apartment house which is so de luxe that scarcely any but the wealthy could afford to live there. They also hold some $15,500,000 in real estate notes as well as stocks and bonds, government and industrial.

A normally quiet but very old union, not much in the news, is the richest of all of them so far as net worth is reported. It is the Brotherhood of Railroad Trainmen. This independent union shows $54,000,000 and over in Government and industrial bonds alone.

It is somewhat interesting that the noisier CIO unions are in the poorer category but that is understandable as the CIO is largely made up of relatively new unions. The very vocal United Automobile Workers show a net worth of only about $17,500,000 in United States and Canadian bonds and General Motors Corporation acceptances. Similarly the CIO Steelworkers report a net worth of a little less than $14,000,000.

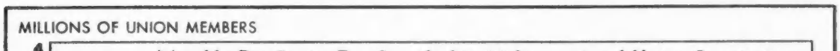
The Ladies Garment Workers of the AFL illustrate a strength of the older unions which new CIO unions lack. The Ladies Garment Workers show union funds of only about $12,750,000 but the union's welfare fund reserves amount to $111,600,000, greater than the Mineworkers and this vast sum was accumulated by the workers themselves, without any tonnage payments.

The AFL Teamsters today are regarded as perhaps the most interesting labor group in the country. Dave Beck has warned that he intends to bring into his union any worker who has anything to do with anything that moves on wheels. The Teamsters have added a quarter of a million members in the last year to the million they already had. True, the Teamsters show at present only some $31,400,000 net worth but the union's potential can scarcely be visualized.

### Common Stocks for Labor Unions?

The constitutions of most international unions prohibit investment of funds in common stocks. Beck has announced that at the next convention, he will seek an amendment permitting investment in common stocks. The Electrical Workers now permit stock investments. With large funds under concentrated management, one can scarcely escape some speculation on the market effects a labor group could exert if it chose in manipulation of substantial blocks of corporation stocks.

Reverting to the subject of labor union income: to begin with, by no means all union income is dis-




*Per capita taxes are the amounts which local unions remit each month to their parent international organizations for each member. They constitute the major source of income for the internationals. In turn, the internationals pay a per capita tax to their parent federations, the AFL or CIO. In the AFL the per capita is 4 cents a month; in the CIO, 10 cents.*

closed but enough reliable information is officially available to give some idea of the mighty stream of money which perpetually flows into labor's coffers. There is wide variation in union dues, depending on degrees of skill involved, union services offered and other considerations. But every union member does pay dues and, with the organized labor force now at about 16,000,000 it is not out of the way to estimate an annual dues income of around $600,000,000. Initiation fees are in addition. Union constitutions state minimum, seldom maximum fees. Locals have discretion and while there are ranges from $5 to $7 there are several others with $100 as a maximum figure and still others with $100 as a minimum. A study in the Columbia Law Review tells of initiation fees which once ran in a range from $500 to $3,000.

The local unions pay a per capita tax; that is, a payment for each member to the international union. The next step is the payment by each international of a per capita to its general federation—the American Federation of Labor and the Congress of Industrial Organizations. Forty-four unions studied paid from $.55 to $1.25 a month for each member. Again there is variation in practices but usually there is some separation as between regular union dues and dues or payments earmarked for welfare funds. As near an average as can be estimated for monthly welfare payments would be $1 a month, all these sources going to swell the aggregate of income, constantly adding to the central capital structure of organized labor.

The CIO does not disclose its benefit figures and, indeed, there is little to disclose. This is because most CIO unions came into existence after public relief measures were inaugurated such as social security and the CIO, being so largely socialistic, believes in leaning upon the state rather than self-help. The American Federation of Labor, in its latest report on benefit payments of its affiliated unions for 1952, shows disbursements of $100,310,627. This includes death benefits of $26,760,368 and old age benefits of $22,476,830 with other categories. It requires little figuring to realize what a capital sum is required to make such an *annual* outpouring.

These union insurance and allied funds are not subject to State insurance laws although it should be emphasized that probably no mutual or commercial insurance company ever has been more strictly managed. Questions of tax liability of union financial transactions occasionally arise and, doubtless, will continue to do so. Right now there is the question of whether the Teamsters should pay income tax on the $1,000,000 loan made to the Fruehauf Trailer Company of Detroit to assist that company in its affairs. Is this a straight business investment or is it a tax-free union activity?

The big federation, the AFL and CIO, do not have much money compared with the internationals, their constituent bodies, presumably, the chief officers have tremendous influence on overbrooding policies. The AFL, in its report for its fiscal year ended June 30, 1953, showed receipts of $4,983,975 and expenses of $4,575,024. A balance from last year amounted to $1,111,907 giving the Federation $6,095,882 in hand. The CIO shows at the end of its fiscal year, September 30, 1953, receipts of $5,705,915 and expenses of $5,396,844.

Incidentally, from time to time there has been criticism of large salaries paid union leaders. It is true that some draw as much as $50,000 a year reputedly and have practically unlimited expense accounts but perhaps it might be borne in mind that they are handling large enterprises much as the heads of great corporations, drawing comparable salaries, who are in charge of big business. To be sure, here and there, some individual worker grows a little restive when he reads how his or some other big chief spends a season at Palm Beach with all expenses paid for himself and family. But this is counterbalanced when he reads how great corporations bow to his chief's demands at the bargaining or threatening table. He strikes his breast and says: "That's me."

### The Labor Banks

At the outset reference was made to the great opportunity labor rejected thirty years ago. In the brief but sharp depression which followed the end of the First World War, employers embarked upon a determined effort to injure labor unions and preserve the open shop. Norfolk, Virginia, was historically an open shop city. During the war years its shops worked day and night on ship repairing with fledgling union members receiving high wages. With the war's end, the shop owners declared for the open shop and cut wages from 80 to 72 cents an hour.

The men struck. The Iron Masters Association was confident the strike would be short-lived. But there was one ship-repair shop that remained open and paid the union scale. It was a new firm and owed some $40,000 to the Bankers Trust Company of Norfolk and depended upon the bank for going funds. Under pressure from the Iron Masters Association, the bank demanded payment and withheld further credits. (*Please turn to page* 644)

**ASSETS OF IMPORTANT LABOR UNIONS**

| | | |
|---|---|---|
| **Teamsters AFL** | **$ 31,341,838** | **net worth** |
| **United Mineworkers** | **$ 34,032,833** | **liquid assets** |
| | **$ 98,000,000** | **welfare fund** |
| **Railroad Trainmen** | **$ 54,419,333** | **net worth** |
| **Electrical Workers AFL** | **$ 25,983,389** | **stocks, bonds, notes** |
| | **$ 28,199,439** | **welfare funds** |
| **Ladies Garment Workers AFL** | **$ 12,752,049** | **net worth** |
| | **$111,610,535** | **welfare funds** |
| **Steelworkers CIO** | **$ 13,838,794** | **net worth** |
| **National Bank of Washington*** | | |
| **(Controlled by United Mineworkers 1953)** | | |
| **Capital** | **$ 2,100,000** | |
| **Surplus** | **$ 2,100,000** | |
| **Total Resources** | **$120,682,000** | |

***—Merely one of many banks now controlled by labor unions.**

# How Companies Diversify Their Investments

By FRANK L. WALTERS

Diversification in the employment of investment funds always has been considered desirable, and, to a considerable extent, essential if investment objectives are to be attained. The reason for this, as every investor knows, is that by pursuing such a policy risk is distributed to the greatest possible degree, stability of income is strengthened, and the opportunity for enhancement of principal through market appreciation is broadened.

Methods of achieving investment diversification vary. One way is for an investor, acting independently or with the aid of investment counsel, to select a number of securities, each representing a different industry, as media for investment funds, the objective being, of course, to limit the risk that would be inherent if the funds were concentrated in the stock of a single company. Yet, it is possible, as will be shown later, to obtain diversification through the purchase of the stock of but one company.

Another way to diversify is through investing in mutual funds or investment trusts. Investments in either of these two types of securities afford the investor broad diversification, but in the case of mutual funds he may find it costly to withdraw owing to specific costs incurred. In the case of some investment trust shares, he may have to satisfy himself with a small income yield because of the normally low rate of dividend such issues pay as compared with the yield of other types of securities affording equal or better diversification and potentials in the way of increased values.

### Inter-Company Diversification

Still another, and somewhat unusual method of achieving diversification in the employment of investment funds is to purchase stocks of companies which, through use of their own funds, have already diversified by investing in the securities of other companies operating in related or even in entirely different fields.

An outstanding example of companies that have diversified through investments in other corporations in industries outside their own spheres of activity is Allied Chemical & Dye Corp., which has an investment portfolio containing securities of such widely diversified enterprises as United States Steel, American Viscose, Air Reduction, Owens-Illinois Glass, Virginia-Carolina Chemical, and Libbey-Owens-Ford Glass.

Along similar lines is the wide diversification represented by the investment portfolio of McIntyre Porcupine Mines, one of Canada's large gold producers, whose security holdings give it a considerable stake in the further growth of Canada's economy as well as in the earnings and continued expansion of a number of large American industrial companies. Among McIntyre's holdings contributing materially to net earnings are substantial blocks of stocks in International Petroleum, International Nickel, Bell Telephone of Canada, Amerada Petroleum, General Electric, Standard Oil of N. J., United States Steel, and Standard Oil of California. These and other securities owned by McIntyre are exclusive of investments held by some of its subsidiary companies which duplicate to some extent those held by the parent company. They also include well scattered investments in such enterprises as Allied Chemical & Dye, British American Oil, American Telephone & Telegraph, Sinclair Oil, Aluminium, Ltd., the Bank of Montreal, and the Canadian Bank of Commerce. These subsidiary investments are separate and are not included in the computation set forth in the table accompanying this article.

Another example of investment portfolios, but of a slightly different type, is that of American Smelting & Refining with holdings in other independent mining companies, one of which is the Cerro de Pasco Corp., with some diversification achieved through its investments in Revere Copper & Brass,

### *Companies with Investments in Varied Fields*

| Company | Investments In Other Companies: Number of Common Shares | | Current Value of Holdings Per Share | Income From Holdings 1953 |
|---|---|---|---|---|
| Allied Chemical & Dye* | 142,300 | U. S. Steel | $ .67 | $ 426,900 |
| | 334,000 | American Viscose | 1.36 | 668,000 |
| | 268,000 | Air Reduction | .72 | 375,200 |
| | 208,309 | Owens-Illinois Glass | 1.89 | 833,236 |
| | 56,100 | Libbey-Owens-Ford Glass | .27 | 117,810 |
| | 43,502 | Virginia-Car. Chem. Pfd. | .61 | 255,012 |
| | | | $ 5.52 | $ 2,676,158 |
| American Brake Shoe | 117,875 | Bucyrus-Erie | $ 2.58 | $ 235,750 |
| American Home Products | 82,500 | Goodrich (B. F.) Co. | 1.80 | 226,875 |
| Bethlehem Steel | 300,000 | Rheem Mfg. | .84 | 600,000 |
| Corning Glass Works* | 1,050,000 | Owens-Corning Fiberglas | 21.40 | 2,100,000 |
| Du Pont (E. I.)* | 20,000,000 | General Motors | 28.16 | 80,000,000 |
| General Precision Equipment | 49,000 | Twentieth Century-Fox | 1.51 | 49,000 |
| Grace (W. R.) & Co. | 514,569 | Davison Chemical | 7.88 | 771,853 |
| | $2 Mil. | Dewey & Almy Notes | .76 | 57,500 |
| | | | $8.64 | $ 829,353 |
| Gulf Oil* | 2,300,000 | British Amer. Oil | 1.94 | 1,380,000 |
| | 80,000 | Halliburton Oil | .09 | 144,000 |
| | 422,798 | Texas Gulf Sulphur | 1.53 | 2,113,990 |
| | 130,000 | Trans Mt. Oil Pipe Line | n.a. | n.a. |
| McIntyre Porcupine | 100,000 | Amerada Petroleum | 21.81 | 300,000 |
| | 22,050 | American Metal | .58 | 33,075 |
| | 69,000 | Bell Tel. of Canada | 3.54 | 138,000 |
| | 1,200,000 | Belleterre Que. Mines | 5.26 | 120,000 |
| | 13,000 | General Electric | 1.51 | 52,000 |
| | 100,000 | Int. Nickel of Canada | 4.51 | 235,000 |
| | 15,000 | International Petroleum | .45 | 15,000 |
| | 33,076 | Standard Oil Calif. | 2.36 | 99,228 |
| | 81,400 | Standard Oil N. J. | 7.95 | 366,300 |
| | 15,000 | U. S. Steel | .77 | 45,000 |
| | | | $48.74 | $ 1,403,603 |
| Owens-Illinois Glass* | 500,000 | Gair (Robert) | $ 3.27 | 750,000 |
| | 1,050,000 | Owens-Corning Fiberglas | 18.54 | 630,000 |
| | | | $21.81 | $ 1,380,000 |
| Phelps Dodge | 265,714 | American Metal | $ .55 | $ 398,571 |
| | 100,000 | Amerada Petroleum | 1.71 | 300,000 |
| | | | $ 2.26 | $ 698,571 |
| Pure Oil | 80,000 | Halliburton Oil | 1.06 | 144,000 |
| Sharon Steel | 211,575 | Mullins Mfg. | 2.22 | 337,520 |
| | 142,500 | National Supply | 3.49 | 285,000 |
| | | | $ 5.71 | $ 622,520 |
| Stone & Webster | 514,488 | Transcontinental Gas Pipe L. | 5.54 | 720,283 |
| | 457,155 | Tennessee Gas Trans. | 4.99 | 640,017 |
| | 43,333 | Oklahoma Natural Gas | .41 | 51,999 |
| | 10,000 | Superior Steel | .07 | 10,000 |
| | 62,500 | Texas Gas Trans. | .50 | 62,500 |
| | | | $11.51 | $ 1,484,799 |
| Sun Oil | 40,000 | Halliburton Oil | .15 | 72,000 |
| Texas Company* | 80,000 | Halliburton Oil | .08 | 144,000 |
| | 399,000 | Seaboard Oil | 1.32 | 997,500 |
| | 1,440,000 | McColl-Frontenac Oil | 1.44 | 1,440,000 |
| | | | $ 2.84 | $ 2,581,500 |
| U. S. Smelting | 10,000 | Anderson Prichard Oil | .87 | 20,000 |
| | 50,100 | Texas Pacific Land | 10.60 | 105,210 |
| | 50,000 | Louisiana Land | 5.29 | 150,000 |
| | 50,000 | Texas Pacific Coal | 3.59 | 82,500 |
| | 20,000 | Pond Creek Pocahontas | 1.24 | 80,000 |
| | 24,600 | Island Creek Coal | .74 | 36,900 |
| | | | $22.33 | $ 474,610 |
| Westinghouse Electric* | 515,000 | Baldwin-Lima-Hamilton | .29 | 386,250 |

*—Stocks with strong growth prospects.

fabricators of brass, bronze, copper and aluminum products, and General Cable Corp., manufacturers of copper wire and cable, copper tubing, rods, sheets as well as a number of related products. In addition to the value to American Smelting of these holdings, both Revere Copper & Brass and General Cable are users, in the ordinary course of business, of sizable quantities of refined copper, lead and zinc, and other products of American Smelting and its subsidiaries.

Many of the large oil companies have investments in other important corporations in the oil industry. Among the latter are pipe line companies, marketing companies, fully integrated entities with oil and gas producing acreages, refineries, transportation and marketing facilities, while others are largely engaged in the production of oil and gas, providing sources of supply that under the normal routine of operations strengthen the raw products position of the investing company.

Standard Oil Co. of New Jersey is a good illustration of investment diversification because of its very large holdings, amounting to millions of shares individually in other important oil companies. Among these investments are 70% ownership of Imperial Oil, Canada's largest integrated oil company; 94% ownership of Creole Petroleum, a fully integrated organization operating in Venezuela; an 83% interest in the stock of International Petroleum, also a completely integrated oil company operating in Colombia and Peru, and 72% interest in the giant Humble Oil & Refining Co., a domestic oil corporation with oil lands in the Southern seaboard states, as well as carrying on refining, transportation and marketing activities in Texas and New Mexico. All these companies are considered by Standard of N. J., as consolidated companies, and together with its wholly-owned subsidiaries, give Standard oil production from the oil fields of Canada southward through the various oil pools of the United States to

those in South America. In addition, other production through non-consolidated companies operating in the Middle and Far East further broadens sources of supply with its refining, or transporting and marketing activities in practically every country this side of the Iron Curtain giving operations world-wide scope.

Gulf Oil, while holding a sizable investment in British American Oil, deviates from Standard of N. J.'s policy of investment through broader diversification, holding close to 423,000 shares of Texas Gulf Sulphur, the world's largest sulphur producer, and an investment, through its wholly-owned subsidary, Canadian Gulf Oil, in 13,000 shares of Trans Mountain Oil Pipe Line Co. In addition, the parent company holds approximately 160,000 shares of Halliburton Oil Well Cementing Co., which in itself has a considerable degree of diversification through furnishing several essential services to oil producers. These include oil and gas well cementing, the manufacture for its own use and for sale to others of specially designed oil field tools and equipment, and resale of bulk cement and chemical admixtures purchased from others for use in its own activities. Halliburton has proved a profitable investment, having a background of persistent growth and a promising long-range outlook in serving the oil and gas producers, including many of the leaders that also have investments in the company. Among these are Sun Oil, holding approximately 80,000 shares of Halliburton, The Texas Co., with 160,000 shares, and Pure Oil, also owning 160,000 shares.

## Special Illustrations

In studying how various companies in the many industries reach out for diversification through investing in other corporations, it is interesting to see the course that United States Smelting has pursued toward that end. Being primarily a producer of lead and zinc, and other metals, it is something of a

(*Please turn to page* 645)

### *Companies with Investments in Closely Related Fields*

| Company | Investments In Other Companies: Number of Common Shares | | Current Value of Holdings Per Share | Income From Holdings 1953 |
|---|---|---|---|---|
| American Metal | 10,715,984 | Rhodesian Selection Trust | $ 7.21 | $ 2,571,800 |
| | 2,934,268 | Roan Antelope Copper | 7.89 | 3,843,891 |
| | 164,800 | Consol. Coppermines | .44 | 157,560 |
| | 225,000 | Climax Molybdenum | 2.95 | 250,000 |
| | 201,369 | O'okiep Copper | 2.50 | 1,341,117 |
| | | | $20.99 | $ 8,164,368 |
| American Smelting & Refining | 178,395 | Cerro de Pasco | .72 | 222,993 |
| | 2,847,000 | Mt. Isa Mines | 2.35 | 962,286 |
| | 469,074 | Revere Copper | 3.27 | 1,407,222 |
| | 855,674 | General Cable | 1.72 | 385,000 |
| | 330,369 | United Park City Mines | .07 | ...... |
| | | | $ 8.13 | $ 2,977,501 |
| Anaconda Copper | 596,094 | Anaconda Wire & Cable | 3.16 | 2,384,376 |
| | 578,228 | United Park City Mines | .08 | ...... |
| | 333,000 | Inspiration Copper | .84 | 999,000 |
| | 69,700 | Butte Copper & Zinc | .06 | 69,700 |
| | | | $ 4.14 | $ 3,453,076 |
| Baltimore & Ohio | 235,065 | Reading Co. 1st Pfd. | 3.30 | 470,130 |
| | 345,600 | Reading Co. 2nd Pfd. | 4.18 | 691,200 |
| | 600,800 | Reading Co. | 6.32 | 1,201,600 |
| | 167,127 | West. Maryland 7% 1st Pfd. | 11.41 | 2,506,905 |
| | 8,000 | West. Maryland 2nd Pfd. | .14 | ...... |
| | 159,050 | West. Maryland | 1.48 | ...... |
| | | | $26.83 | $ 4,869,835 |
| Chesapeake & Ohio | 800,000 | New York Central | 2.14 | 800,000 |
| New York Central | 85,166 | C. C. C. & St. L. Pfd. | 1.13 | 425,830 |
| | 465,309 | C. C. C. & St. L. | 12.27 | 4,653,090 |
| | 132,845 | Dela. Lack. & West. | .29 | 66,422 |
| | 10,453 | Mahoning Coal R. R. Pfd. | .08 | 26,132 |
| | 20,133 | Mahoning Coal R. R. | 1.62 | 905,985 |
| | 163,439 | N. Y. & Harlem R. R. | 10.14 | 817,195 |
| | 433,984 | Pittsburgh & Lake Erie | 4.57 | 1,952,928 |
| | 50,102 | Peoria & Eastern Rwy. | 2.87 | ...... |
| | 136,800 | Reading Co. 1st Pfd. | .76 | 273,600 |
| | 300,300 | Reading Co. 2nd Pfd. | 1.44 | 600,600 |
| | 262,900 | Reading Co. | 1.10 | 525,800 |
| | | | $36.27 | $10,247,582 |
| Pennsylvania R. R. | 645,416 | Lehigh Valley R. R. | .69 | ...... |
| | 527,168 | Norfolk & Western Pfd. | 1.00 | 527,168 |
| | 2,397,280 | Norfolk & Western | 7.65 | 8,390,480 |
| | 174,404 | Wabash R. R. Pfd. | .88 | 784,818 |
| | | | $10.22 | $ 9,702,466 |
| Standard Oil of Indiana* | 2,069,144 | Standard Oil of N. J. | 10.49 | 9,311,148 |
| | 1,175,000 | Midwest Oil Corp. | 1.67 | 1,645,000 |
| | | | $12.16 | $10,956,148 |
| Standard Oil of New Jersey* | 25,973,000 | Humble Oil | 25.72 | 59,218,440 |
| | 24,400,000 | Creole Petroleum | 32.22 | 170,800,000 |
| | 18,896,000 | Imperial Oil | 9.67 | 15,116,800 |
| | 11,994,000 | International Pete | 4.75 | 11,994,000 |
| | | | 72.36 | $257,129,240 |
| Union Pacific | 24,192 | Baltimore & Ohio Pfd. | .22 | 96,768 |
| | 25,024 | Baltimore & Ohio | .11 | 25,024 |
| | 19,855 | Chicago & Nor. West. Pfd. | .14 | 64,528 |
| | 98,270 | Illinois Central Pfd. | 2.40 | 589,620 |
| | 268,700 | Illinois Central | 4.95 | 1,209,150 |
| | 160,000 | New York Central | .75 | 160,000 |
| | 115,200 | Pennsylvania R. R. | .44 | 172,800 |
| | | | $ 9.01 | $ 2,317,890 |

*—Stocks with strong growth prospects.

# Liquidating Government's $30 Billion Business Empire

By HAROLD DuBOIS

A campaign promise of the present Administration was that it would get Government out of business and put more business-like methods into the operation of Government. The latter commitment, easier of fulfillment than the first, is being very well carried out. Men of proven business experience and talents head up the major Government departments —there is no need to cite them here. Getting Government out of business, however, is another matter, a time-consuming matter, but earnest steps to accomplish this end have been taken, are gaining momentum but the acceleration seems to be negligible. This is because the job is one to stagger the imagination, a job that will require another year of research, investigation and audit; but a job, when finally done, will stand as an outstanding accomplishment leading to more complete restoration of free enterprise than we have seen for two decades.

The term "getting Government out of business" means just exactly that, but in a little more detail it means ending those Government operations which are in direct competition with private, tax-paying enterprise, ending those Government operations which should *not* have been initiated, have no economic justification now or in the future, and should be eliminated at the earliest possible moment. They are operations which cost the taxpayers uncounted millions of dollars each year, and keep the national debt at a point which threatens to puncture the statutory ceiling of $275 billion—a thing to be avoided if we are to have a really solid dollar.

It may be a shock to some readers, but it is an established fact that it would take the equities of stockholders in 29 of our largest and best known corporations to equal the $30.5 billion the Government now has invested in business-type operations, virtually all of them in competition with private enterprise or, if not directly competitive, in areas where private enterprise could do a better job if given the opportunity.

Parenthetically, it can be noted that in 1952 the 29 corporations paid $4.9 billion in taxes, but only a little more than $2 billion in dividends. The disparity is on the discouraging side when one realizes that *more than a few millions of those tax dollars were used to support Government business operations directly competitive with the corporations who ponied up the $4.9 billion.* This is a condition which sends risk capital into retreat, and when risk capital is not available we have industrial stagnation or we have more Government ventures into fields which should be dominated by private enterprise. A vicious circle, to say the least.

### A Difference in Taxes

To this point, the picture is gloomy, but the writer would not describe it as hopeless. The start to get Government out of business has been made. It will gather momentum—slowly, to be sure, and as the people began to see and know the advantages, momentum will mount.

The move to get Government out of business is very definitely under way. It has not had an overly auspicious start, but it has moved farther along than is generally realized. The Inland Waterways Corporation, a Federally operated barge line, has been sold to private enterprise. It operated at an average annual deficit of around $7 million, a mere bagatelle in the national tax picture, yet a total of the Federal taxes of about 3,500 average American families. Meanwhile, other steps have been taken to get Government out of business. Space limitations prevent cataloging them and their respective savings, but some are worthy of mention.

Interior Department, which controls the National Parks, has leased out to private operators a number of hotels which it operated, at a loss, of course. The Defense establishment is eliminating those commissaries and post exchanges which are in serious competition with retailers of their respective areas. The writer, nor the reader, could quarrel with this type of operation for the benefit of the service man and his family in posts far-removed from available private enterprise. We could quarrel with the Government store just outside the city limits with civilians in on the deal.

But these are minor. The writer mentions them

only to point up that the move to get Government out of business is rolling. Where will (or can) best results be achieved? The question is fair, but it is not too easy to answer.

First, the writer would look at the Reconstruction Finance Corporation, soon to be liquidated, next he would look at the Tennessee Valley Authority. Both are huge Government operations, both have been in the lime light of late, both are in areas of private operation the Government can profitably abandon, and each is widely different from the other. Between, there are many Government business ventures similar to one or the other, or both.

As of last November, the Reconstruction Finance Corporation had on its books $115.2 million of loans to 4,327 borrowers, each loan under $200,000 and bearing interest at rates varying from 4% to 5%. Each loan is to a business operation of some sort. The vast majority of these loans could well be handled by private bankers. The principal reason they are not now in private hands is that for the past 15 or 20 years Government has put out the propaganda that RFC was a "liberal" lending agency, not hampered by the restrictions imposed on National and other banks by the Federal Reserve System, the Comptroller of the Currency, or the Federal Deposit Insurance Corporation.

The RFC, under the present Administration, is now moving to dispose of these holdings to banks throughout the country. Just how many the banks will wish to take over is problematical, but the RFC classes 90% of them as good risks. Two-thirds of these loans are under $25,000, while 93% are under $100,000. The loans are distributed through 40 States, Alaska, the District of Columbia, Puerto Rico, the Virgin Islands, and one is in Canada. It is admitted that RFC is now scheduled to die next June 30, but if these loans are not disposed of by that time, some other Government Agency—perhaps Treasury Department—must take them over. And this would mean the expense of accounting, supervising, collection, etc., would continue to be a burden of Government, and a burden of Government is a burden on the taxpayer.

During the coming months, each of these loans will be carefully scanned by special examiners who will report on the soundness of each loan. The information they develop will then be passed along to the banks who will then have the opportunity to take over one or more of these obligations. This means that companies in debt to RFC will make their payments to local banks rather than to RFC as is now the case. It is conservatively estimated the plan will save the Government around $15 million annually in administering and servicing the loans. Due further consideration is the fact that the interest earned by the local banks will produce revenue for the Federal Government in the form of income taxes. Thus we see that disposal of RFC "paper" has a double-barreled effect—Government avoids administrative expense through disposing of the loans, and gathers taxes from the interest earned by the banks who take over the loans.

In addition to plans to dispose of its commercial loans, RFC is now liquidating its synthetic rubber and tin empires, both necessitated by the exigencies of all-out war, but no longer necessary as we seem to be getting the upper hand in the cold war between the free nations and the U. S. S. R.

As originally built, Government's synthetic rubber set-up consisted of 51 major facilities, 22 of which have been disposed of—the remaining 29 now offered for sale to private enterprise. Thus far, around $300 million worth of these facilities have moved into the hands of private operators who now pay taxes on the physical assets as well as on income derived therefrom. Final disposition may cause Government to go in the red ink as against initial cost, but Government (and the taxpayer) will be for all time relieved of cost of maintenance, depreciation and other unavoidable charges.

The tin program of RFC will be a burden for another two years, plus. It extends to June 30, 1956, but it is one of stockpiling, not of physical assets and facilities which might be advantageously used by private enterprise. Nevertheless, it is on the way out and at savings to the taxpayer.

There are other RFC operations which cost money, but space limitations prevent detailed review here. Sufficient to say that they will be disposed of—perhaps within the next 18 or 20 months.

The largest Government business venture, outside of mortgage and veterans insurance, at least the one that has had the most attention in the press and in public debate and discussion, is the Tennessee Valley Authority— (*Please turn to page* 643)

***An Alphabet of Government Business***

**(Partial Tabulation of Government operations in competition with private enterprise)***

**Aluminum, accounting, amusements, architecture.**

**Bakery products, banking, bus lines, brooms, brushes.**

**Canning, cement, clothing, coal, coffee roasting, creameries.**

**Dentures, dairying, dredging.**

**Electric power, electrical fitting, engineering.**

**Fertilizers, fish hatcheries, foundries, furniture, furs.**

**Guns, gold refining, golf courses.**

**Harness, helium, hospital equipment, hotels.**

**Ice cream, ink, insurance, irrigation.**

**Laundries, loan associations, lumbering.**

**Magazines, motion pictures, moving vans.**

**Oil.**

**Paint, parachute manufacture, printing.**

**Railroads, real estate, rope manufacture, rubber,** rural electrification.**

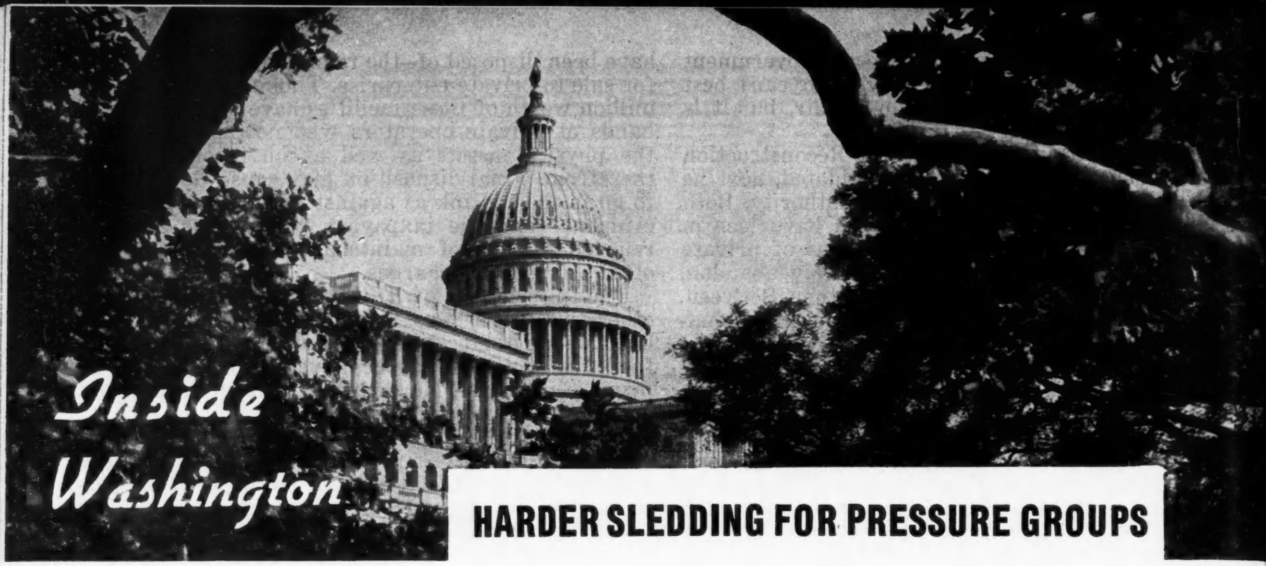
**Shipping, sleeping bags, seeds, spectacles, swimming pools.**

**Tailoring, trucking, theatres, typewriters.**

**Warehousing, window washing, wood preserving, woodworking.**

***—The foregoing list is only *partial*, and was culled from records of the House Subcommittee on Intergovernmental Relations to give the reader a glimpse of the varied Government business-type operations rightfully belonging in the field of private enterprise.**

****—Synthetic rubber—disposal steps now under way.**




# HARDER SLEDDING FOR PRESSURE GROUPS

By "VERITAS"

**IMPLICATION** to be drawn from one of the earliest major committee actions of the current session of congress (on the St. Lawrence Seaway project) is that pressure groups are not going to have the easy sailing they had under former administrations.

> ### WASHINGTON SEES
>
> Local governments which had believed the issue of federal-state tax overlap might be solved in their favor, now see the prospect of exactly the opposite and mayors and city attorneys are heaping protest upon congress. For the record, they made argument in favor of the federal Treasury stepping out of the fields of gasoline, liquor, and tobacco taxation; actually they had hoped that the levies would be cut, or at least not increased, thereby giving the statehouses and city halls leeway to move in. The President's tax message doomed that and where April 1 increases in excises were scheduled they'll go through as planned, it now seems certain.
>
> But adding to the woes of the local governments are two actions by the ways and means committee, proposing to recommend to congress that municipal housing bonds, and municipal revenue bonds issued for industrial development purposes, be subjected to federal tax. This would not be the entering wedge for the general taxation of city bonds, a proposition raised annually but never before given committee indorsement.
>
> With government emphasis on industrial relocation to break up plant concentrations and, frankly, spread the bomb targets, the use of industrial expansion bonds as a means of inviting enterprise could very well increase in the immediate future. Many cities, under charter rights or special acts of their legislature, have the authority now. It is not widely exercised. The mayors say it won't be if tax goes on. To the expressed notion that housing bonds really are federal in nature, the city officials answer by asking: "Who redeems them?"

Despite opposition of rail and coal interests, plus assorted labor unions and some seaboard states, the program sped through the house committee by a lopsided 23-to-6 vote. It had been expected to razor-edge through. Eisenhower-backed, the plan provides U. S.-Canada cooperation, financing on revenue bonds to be retired by collected tolls. The senate already had approved it; opponents thought it would die in the house committee. There was an overtone of "Ike" throughout "pro" debate.

**PROMOTIONAL** values to the trade unions of a White House-sponsored national conference on unemployment could be read into every word of Walter Reuther's (UAW-CIO) plea, but President Eisenhower was just as quick to see through it, declined to provide a forum and audience, in effect erased the public wailing wall which Reuther had dreamily constructed. The President said with complete logic that unemployment exists, but that a program has been drafted to alleviate it; that the program needs time for preparation and application; that it is far better to meet problems as they become current, with ready-made tools, than to create hypothetical situations, reiterate the obvious, deal in sophism.

**ASSOCIATION** of atomic energy with the multi-billion dollar projects to bring out its destructive forces has tendency to put the subject beyond the mental reach of small business. But that isn't necessarily so, says the Small Business Administration in a book bearing the somewhat uninviting title, "Radioisotopes and Small Business." Actually it isn't difficult reading for industry-men interested.

**EVENTUALLY** there must be a breaking down of statistics showing categories under which more than 2,000 federal workers left their jobs in the course of, or as a result of, loyalty investigations. The public just won't believe an employment brochure which includes fingerprints, investigated reference, signed oaths, etc., doesn't specify the reason for "separation." It's significant that the demand doesn't come from those fired; it springs from outside do-gooders who may find they've done disservice when all the facts are spread on the record.

# As We Go To Press

Seemingly escaping public awareness, a theory of government is being tested in this country today which might well change the course of public affairs. For generations, there has been a clamor for more businessmen, successful businessmen, as high federal officials. Question unanswered was whether the transition from successive administrations manned by politicians to a regime of men who had made their mark in industry, trade, and finance, could be accomplished without totally disrupting operations. The individuals President Eisenhower called to Washington to aid him could very possibly be described as men you'd hire, but couldn't elect. Few of them actually had ever tried their hand at being elected. They were, at best, unknown quantities by ballot-box standards; some of them by the measurements of cold, practical politics, would be drawbacks to a ticket.

Every administration has had a few businessmen, industrialists, financiers, etc. at the top (in times of emergency, real or fancied, they were drafted to federal service on a wholesale basis.) But in every recent case, the politicians topped the businessmen in point of Cabinet rank, access to the White House, and, what is very important, numerically. To answer the age-old question it was necessary to take a calculated risk; submerge the politicians abruptly to the point of relative obscurity, give the non-professionals the rein. Then await results.

As formal appointments caught up with rumors, the Eisenhower team gradually came into being. It was put on the field amid practical hoots from partisan opponents, serious head-shaking among friends of Ike. The Cabinet was called "Nine Millionaires and a Plumber" (Durkin); it was intended to describe a point of view more than to set up fiscal ratings of the appointees. Durkin quit; Benson (Agriculture) became the whipping boy for an understandably worried farm belt; Brownell (Justice) accepted the role of lightning rod to draw the bolts which might otherwise flatten Ike; Dulles (State) oddly enough came in for more republican abuse than he got from democrats; Wilson (Defense) was charged with thinking "what's good for General Motors is good for the United States"--Amusing enough to invite repetition that made his row no less difficult to hoe.

There were politicians around, some of them in high places. Sherman Adams, the former New Hampshire governor mans an important throttle at "Assistant President," a title that doesn't explain he is the one who takes the congressional and departmental blows aimed at the President. Also, he is the official "no" man. That saves Ike from hearing out scores of persons each day, each with a cause to plead, and each an enemy in the making if the President doesn't see it his way. Adams is accused around the Capitol of being "hard." That comes of confusion which arises from the fact that the congressmen haven't yet become accustomed to business methods in the White House. But there is no effective appeal from Adams and there is no GOP congressman who can say the "Assistant President" has favorites. They're all treated the same.

Brownell to some extent got Ike into the fracas over Harry Dexter White and it's no secret that the Chief Executive felt he didn't belong in that mess, didn't relish it. But it must be said for Brownell that he didn't try to slough off the onus. Under Brownell, the Department of Justice lost an attempted prosecution of the campaign manager handling the affairs of a democratic candidate for governor of Virginia. The democrat was elected, the men indicted almost literally on the eve of the election was acquitted without having to go to trial, and Senator Harry F. Byrd, democratic boss of Virginia who has definite Ike leanings didn't like the goings-on.

In a widely publicized case which followed, a former antitrust division head was indicted for pursuing a "claim" against the government within two years after leaving the service. The federal judge didn't require the charged attorney to go to trial;

said the law was clear and that the Attorney general had not inerpreted it rightly. These cases, plus the White outbreak, plus The fact the press had to plead with President Eisenhower to force Brownell to hold press conferences as other Cabinet members do, cast the Attorney General down on the list of the strong men surrounding Ike. And Brownell managed several campaigns for Gov. Dewey, helped manage the Eisenhower campaign. He's the only big time politician in the Cabinet or its satellites!

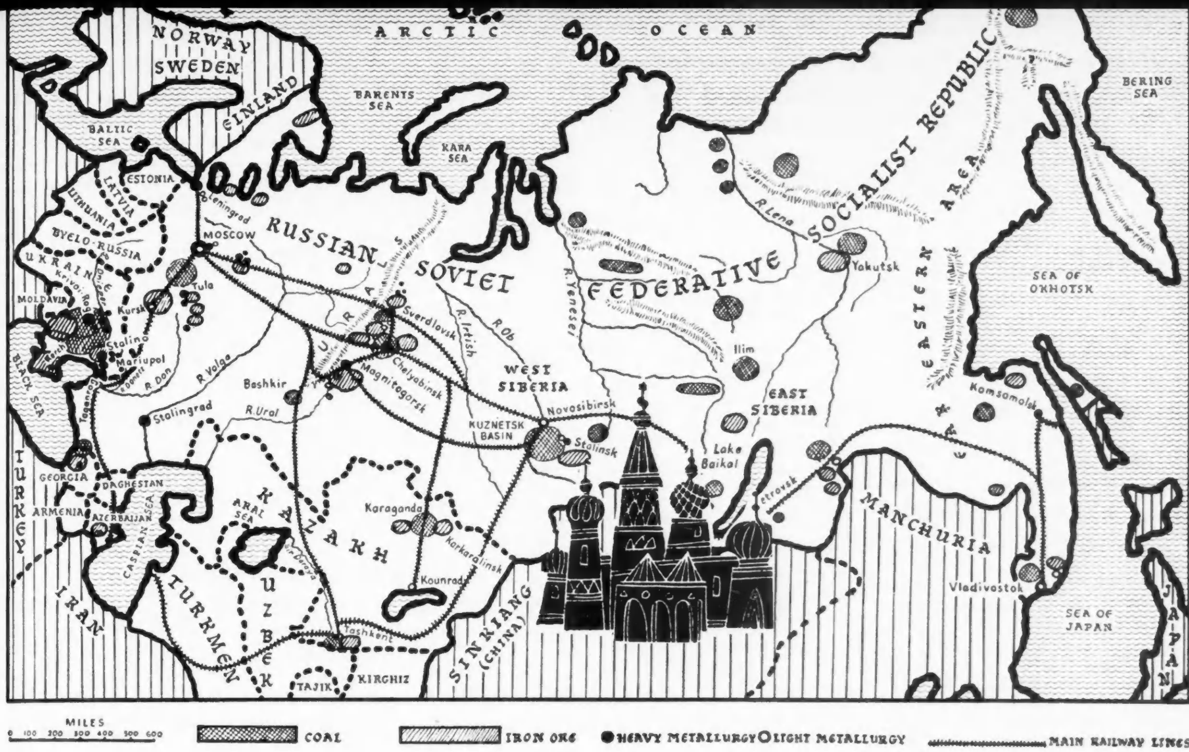
Defense Secretary Wlson's status couldn't be determined in any opinion poll because answers would be colored by such considerations as whether one likes or dislikes "big business." To have placed a military man at the head of that department would have been to waste one military genius -- the appointee, or Ike. Certainly the President has no peer in this country, if anywhere, as a military warrior and administrator. President Roosevelt thought so, and made him commander of all forces in the war in Europe; President Truman must have thought so, too, because Ike was the Chief of Staff under HT. Defense Secretary is not a title involving declaring, or waging, war; the President declares war, and the uniformed forces fight it. The position calls for a procurement and production brain. Wilson eminently qualifies. A politician in that spot would be worse than waste. It would be hazardous!

It took Secretary Wilson many months to impress on congress that he always was ready to talk business, had no time for small talk. That was taken as offensive gruffness. Wilson let it stand at that, meantime worked out the plan which was placed on paper by General Eisenhower: a shift of emphasis on both striking power and defensive weapons; more defense for less money. Old-timers on Capitol Hill, brought up in the tradition that good defense means an equal division of funds and material, don't like it; they still think that if the navy gets six ships, the army should get six tanks, and the air force six planes. Time has passed them by under the spur of business administration of a department which had too long been steeped in pomp, ceremony, sword rattling, and numerous grades in a caste system.

Interior's McKay is a former governor but never would be rated a politician under the national yardstick which has been used to select such Cabineteers as Farley, Walker, Ickes, Hannegan, Perkins, Cummings, Biddle, McGrath, McGranery, Acheson and Hull, to name a few. Yet, proceeding quietly, McKay seems to have worked out a program of public resource control that at least isn't causing any public rows. His position on public power takes nothing from private enterprise, yet does not forestall the construction of public projects where conditions warrant -- conditions meaning lack of interest on the part of private capital, or where flood control or other public necessaries are involved in addition to energy development and distribution. Businessmen are for McKay; public power project advocates aren't against him. Which, all things considered, adds up to success.

Political key men in the Eisenhower camp are attempting to evaluate the future of the admittedly large number of persons who were won to the rallying post of the Bricker Amendment. First step is to decide from whence this strength came and the ready answer is that its nucleus is the isolationist movement which deplores entangling alliance of any sort. That being generally agreed, next question is: Will the President's firm stand be reflected in votes expressing disappointment? It is certain that the need for a Bricker Amendment never was clearly established; it is almost as certain that its methods and purposes of this particular approach were in greatest confusion. Confusion even among the senators discussing it.

Congressmen of long experience don't expect repercussions. At almost every moment of a congressional session there is a "movement" riding high -- well-financed, having nationwide sponsorship, uttering threats to the lawmakers that the "movement" must be successful lest the congressman die politically. It passes over. The Supreme Court "packing" fight was going to defeat FDR; the Dixicrats were going to deprive Truman of an elective term in the White House; the Townsend Plan of some years ago, was "in" or the congressmen were "out"; votes for women were going to ruin the nation; Huey Long was going to become the first dictator in the U.S. These and others have had their day; all of them had some slight effect on the vote.




*World Population and Production—by W. S. and E. S. Woytinsky*

# *Trading with . . . .*

# The Ruble Area

**By V. L. HOROTH**

A couple of weeks ago, the British Trade Delegation visiting in Moscow received a Soviet bid to buy some $1.2 billion worth of British goods over the next three-year period. The Russians have asked for cargo ships, fishing trawlers, tankers, and electrical equipment. The offer may have been merely a Soviet tactic to lure the Western World by a trade gesture, or it may have stemmed, as Harold E. Stassen, director of the Foreign Operations Administration (FOA) suggested, from economic difficulties brought about by a general relaxation of the Soviet economy following Stalin's death. Whatever it means, it will be difficult to persuade the good people in British shipyard towns like Grimsby, where some unemployment recently developed, that the Russian offer should be rejected because it means shipping strategic goods to the arch enemy of the free world.

However, this is concrete example of a problem that the free world is likely to face in the future if (1) the "ruble area" intensifies its trade offensive begun last April in Geneva, and if (2) business recession should develop in the United States and bring about a general decline in West European and Japanese sales in this country. Already disappointment in the reception of the Randall Commission findings has led to a demand that the regulations concerning the shipments of strategic materials to the communist bloc be revised and liberalized, so as to permit increased trading of some free world countries with their "natural markets" behind the Iron and the Bamboo Curtains.

At the same time, the Russians are directing their biggest trade offensive blast at those free world countries which, like France or Italy, are in economic difficulties or which, like Argentina, are smarting from real or imagined slights reputedly suffered from the United States and Western Europe. In France, for example, the Soviets are offering to buy products the sale of which is becoming increasingly more difficult in competitive markets, such as textiles and motor cars. The Italians are being tempted by Soviet offers to barter wheat and oil in return for Italian ships, citrus fruits, and industrial and electrical equipment. For Argentina, the Kremlin holds the lure of plant equipment apparently originating either from East Germany or Czechoslovakia, in return for Argentine linseed oil which could not be sold in world markets because it is over-priced. The Soviet offers to buy copper from Chile at higher-than-the-world-prices are well known. And of course, should the "fool's paradise" in which the Japanese are living collapse one of these days, trade with the communist-controlled mainland of Asia would be in the nature of a life saver. The Japanese exporters—and those of capital goods in particular—are constantly reminding the nation that before the war some 45 per cent of Japanese exports were absorbed by China, Manchuria, and Northern Korea. Both Red China and the Soviet Union are not letting the Japanese exporters forget it either; they have been dazzling Japanese exporters with offers to buy machinery and electrical equipment, dyestuffs, fertilizers, chemicals, medicines, and even textiles, but the problem of paying for these goods is something else again.

### *Trade of the Free World and the United States with the Soviet Orbit and Red China*

(In Millions of Dollars)

| | Imports from Soviet Orbit | Exports to Soviet Orbit | Imports from Red China | Exports to Red China | Imports from Ruble Bloc | Exports to Ruble Bloc |
|---|---|---|---|---|---|---|
| **FREE WORLD TRADE:** | | | | | | |
| 1950 | 863 | 930 | 476 | 409 | 1,339 | 1,340 |
| 1951 | 1,097 | 1,104 | 473 | 439 | 1,571 | 1,543 |
| 1952 Jan.-June | 585 | 577 | 151 | 112 | 736 | 689 |
| 1953 Jan.-June | 448 | 449 | 205 | 163 | 654 | 612 |
| **U. S. TRADE:** | | | | | | |
| 1947 | 108 | 340 | 116 | 353 | 225 | 693 |
| 1950 | 80 | 27 | 146 | 36 | 226 | 63 |
| 1951 | 63 | 4 | 47 | ...... | 110 | 4 |
| 1952 | 39 | 1 | 28 | ...... | 67 | 1 |
| 1953 est. | 75 | 2 | 9 | ...... | 84 | 2 |

But before proceeding further, a few words about the so-called ruble bloc may help the story. What comprises the ruble bloc? The answer is: the two communist powers, Russia and Red China, and their satellites. The currencies of the member countries are absolutely inconvertible—even into each other. However, the money of account for the area is the "gold ruble," supposedly worth about 25 cents. That is the accounting value. The actual external purchasing power of the ruble is difficult to determine, since hardly any rubles circulate outside of the Soviet orbit and the market for them is very thin.

#### Moscow the Clearing House

Moscow acts as a clearing house for the whole system. Payments for goods exchanged among individual countries, say Rumania and Poland, are credited or debited in gold rubles to the respective accounts of these countries in Moscow. In this way, Moscow is not only informed what goes on in the way of trade among the satellite countries and Red China, but is able to influence this trade. Moscow also operates the foreign exchange pool of the area. All foreign exchange earnings are credited at the rate of four rubles per dollar earned, and presumably foreign exchange is in turn apportioned to the countries that need it. It need not be added that the satellite countries as a rule put more into he common "kitty" than they take out, thereby helping to finance the purchases of Russia proper.

The ruble area countries have intensified trade with each other, particularly since the West imposed embargo on shipments of strategic goods to them. In 1951, for example, over 90 per cent of Bulgarian and Rumanian trade, over 80 per cent of Russian and East German trade, and over 60 per cent of Czechoslovakian and Red China trade was with the other communist countries. Since then, the intra-ruble bloc trade is reported to have increased considerably, while the trade with the outside world has dwindled to but a few percent of the overall trade. The bulk of trade consists of the exchange of raw materials produced within the ruble bloc for capital goods. Relatively few consumer goods are exchanged, except in cases where, for example, wheat had to be shipped from the Soviet Union to Czechoslovakia and East Germany to relieve local foodstuff shortages. The explanation for the relatively small trade in consumer goods and the relatively low, when compared with the West, per capita foreign trade may be explained partly by transportation bottlenecks and partly by the efforts of individual countries to industrialize and to become as nearly self-sufficient as possible. Even in the Soviet Union, self-sufficiency of individual areas, such as Central Asia, is encouraged, to avoid long and costly hauls.

#### Myths About East-West Trade

"Trade between Eastern and Western Europe is a fertile field for cultivation of myths," states the last Report of FOA to Congress. Because of the absence of hard facts, there has been great deal of emotionalism about this trade. This modern mythology is found in contrasting forms, the FOA Report finds, on both sides of the Atlantic.

"In Western Europe, for example, it is not rare to encounter the notion that a vast increase in East-West trade is dangling just beyond the horizon; that if the Western nations would only reach out and grasp this horn of plenty it would rid them of unemployment, raise their living standards, solve the problems growing out of their shortage of dollars, and put the world toward the lasting peace . . ."

"In the United States, on the other hand, the notion is held by some people that our allies are shipping military items to the Soviet bloc, and some have the idea, besides, that *all* East-West trade is evil in itself, unpatriotic, disgraceful, no different from wartime 'trading with the enemy', and ought to be abolished . . ."

The fact is that in 1953 some 800 million people behind the Iron and Bamboo Curtains exchanged roughly $2.5 billion worth of goods with some 1,600 million people of the free world. This was about half a billion less than was exchanged in 1950 or 1951. On one hand, it can hardly be said that the East-West trade or the trade with Red China has been strangulated. On the other hand, the reader should consider that the two orbits, the free world and the communist world, with immense populations exchanged less than half as many goods as did Canada and the United States in 1953.

As will be seen from the tables, U.S. participation in the East-West trade was very small. On the basis of U.S. statistics, our 1952 imports from the ruble bloc, including Red China, amounted to about $67 million; our exports were only $1 million. The corresponding figure for 1947, when China and Czechoslovakia were still among the free countries, were $225 million for imports and $693 million for exports. In other words, the disappearance of China behind the Bamboo Curtain affected our trade—especially the cotton and tobacco exporters.

In 1953 our trade with the ruble bloc will show imports at $84 million (on the basis of ten-month figures) and the exports $2 million. Our imports consist chiefly of manganese, chromium, platinum, and furs from the Soviet Union, and of cashmere hair, hog bristles, and crude feathers from Red China. It is notable that the communist countries accumulated in 1952 and 1953 an export surplus of nearly $150 million in the trade with the U.S.

Basically the so-called East-West trade has consisted of trade (1) between East and West Europe and (2) between Red China and the countries of Southeast Asia. Some of the trade has been helpful to both sides. In the case of Western Europe, Sweden, Austria, Italy and France could, by buying Polish

coal, save precious dollars for other purchases. Britain has been a customer for Russian timber and pig iron. Western Germany bought agricultural products in the nearby areas of East Germany, etc. On the other hand, some of the products that Western Europe found hard to sell in the Free World markets, went behind the Iron Curtain, as, for instance, fish from Iceland, butter from Denmark, textiles from France, citrus fruit from Italy.

The chief trader with Red China was Hongkong, which chiefly transshipped such goods as wool, fertilizers, paper, textile machinery, etc. Pakistan, the second largest trader, has been selling raw cotton, while Ceylon has been bartering rubber for rice. British trade with China amounted to about $25 million. Japan managed to import about $15 million worth of goods, but exported only about one million worth of goods. No wonder that the Japanese exporters are anxious to see some relaxation of the trade with Red China.

### Communist Trade Offensive

The trade between the free world and the Communist world hit the bottom early in 1953. Following Stalin's death, when the new Malenkov regime declared itself in favor of increased production of consumer goods, the Russians have not missed the opportunity to get the West interested in trading with them. The free world's trade with China apparently picked up materially following the suspension of hostilities in Korea.

How much trade with the Soviet bloc is likely to increase as a result of the Soviet trade offensive is difficult to say. It is claimed that in the last few months the Soviets alone have placed orders aggregating nearly one billion dollars, with the delivery of goods to be spread over the next two, three years. The Russians and their satellites have been working overtime concluding bilateral trade pacts. Under the trade pact with Egypt, the Russians are to take cotton, cottonseed oil and other products in exchange for machinery from the satellites and petroleum. The Indians expect to trade surplus tea for heavy machinery. More goods are moving between Russia and Iran, and in Canada the Trade Minister, C. D. Howe, indicated that his country would seek more non-strategic trade with Russia.

In trade with China, Western Germany has been especially active, its trade with Hongkong and Red China showing a fourfold increase in 1953 over 1952. Switzerland and Great Britain doubled their sales. French trade with China has also grown, following a visit of French businessmen in Peiping last June. The race for the China trade seems to be on.

### Communists Lack Exportable Surpluses

But can the Russians and the Chinese pay for all the goods, the purchases of which they are negotiating around the world? What is the earning power of the communist bloc? Here may be a big joker that may show the Soviet trade talks nothing but a propaganda bubble.

It is a well-known fact that the ruble bloc hasn't enough things to export—things that the West would like to buy, such as foodstuffs, fodder grains, raw materials, and coal. In a big push to industralize, the communist-dominated countries have barely enough raw materials and fuels for their own needs. The growth of urban areas on one hand, and on the other the shortage of farm labor and the deterioration of agricultural production in general have created acute food shortages throughout the communist realm. China may have some soybean cake and soybean oil for export, and the Soviet Union some rye and oats, but that is about all.

In fact it is quite possible that the lack of things to sell, the drop in the prices of those products which are still exported, along with the fact that the Soviet Union is no longer receiving any reparations from Finland, East Germany and Austria, has resulted in a balance of payments deficit which the Russians may be settling by the shipments of gold, platinum and silver—shipments that have aggregated about $250 million thus far.

### What is the Communist Game?

Regardless of what the outcome of the Four Power Conference in Berlin, may be the problem of what to do about the East-West trade is bound to be one of the big issues in 1954. Since the views of the Western camp already differ widely as to what should be done, the issue of East-West trade may become quite controversial, (*Please turn to page* 638)

***Western Europe's Trade with Eastern Europe (Excluding Finland and Yugoslavia) by Commodities***

(In Millions of Dollars)

| | Imports | | | Exports | | |
|---|---|---|---|---|---|---|
| | 1951 12 Mo. | 1952 12 Mo. | 1953 6 Mo. | 1951 12 Mo. | 1952 12 Mo. | 1953 6 Mo. |
| Foods & Beverages | 319 | 368 | 112 | 73 | 75 | 46 |
| Crude Materials | 147 | 131 | 55 | 134 | 102 | 44 |
| Minerals & Fuels | 224 | 173 | 60 | 1 | ...... | ...... |
| Oils and Fats | 7 | 4 | 1 | 19 | 13 | 4 |
| Chemicals | 44 | 39 | 15 | 70 | 52 | 22 |
| Metal Products | 100 | 69 | 30 | 112 | 141 | 75 |
| Machy. & Motor Veh. | 33 | 30 | 13 | 225 | 187 | 59 |
| Misc. Manufact. | 22 | 19 | 11 | 16 | 17 | 5 |
| All Others | 1 | 1 | 1 | 4 | 7 | 3 |
| Total | 897 | 833 | 299 | 653 | 595 | 258 |

Source: O.E.E.C. Reports.

***Trade of Principal Countries with the Ruble Bloc (Including Red China)***

(In Millions of Dollars)

| | Exports to | | Imports From | |
|---|---|---|---|---|
| | 1947 | 1952 | 1947 | 1952 |
| United States | 693 | 1 | 225 | 67 |
| United Kingdom | 202 | 156 | 101 | 243 |
| Finland | 127 | 184 | 49 | 154 |
| Pakistan | 7 | 120 | ...... | 8 |
| Sweden | 76 | 119 | 117 | 113 |
| Hongkong | 68 | 91 | 97 | 147 |
| West. Germany | ...... | 87 | ...... | 94 |
| Italy | 36 | 58 | 51 | 86 |
| Switzerland | 70 | 57 | 97 | 44 |
| Austria | 15 | 64 | 27 | 74 |
| Belgium | 50 | 60 | 55 | 37 |
| Canada | 71 | 2 | 6 | 9 |
| Argentina | 24 | 13 | 16 | 5 |
| Denmark | 69 | 34 | 57 | 39 |
| France | 43 | 42 | 57 | 64 |
| India | 54 | 13 | 14 | 39 |
| Japan | 10 | 1 | 7 | 18 |
| Malaya | 21 | 30 | 60 | 43 |

# Year-End Corporate Statements

**PART II**

**By WARD GATES**

## —*And First Quarter Trends*

The voluminous number of corporate reports issued since Part I of this analysis was published reinforces the impression given by earlier reports that the majority of manufacturing concerns increased earnings in 1953 as compared with the previous year. A rough estimate would indicate that the average gain was about 12% and that about 70% of reporting corporations were on the plus side.

In Part I, we made some tentative observations to the effect that sales comparisons were favorable to 1953, that profit margins, on the whole, held up well, and that fourth quarter trends resumed the upward trend of the second quarter which was temporarily halted in the third quarter according to a fairly large number of reporting corporations.

Examining the situation more narrowly, we find that the best comparative record was made by the aircraft, steel, and tire groups, all of which scored substantial advances in earnings in 1953. The farm implement group was quite mixed, with results running from fairly good—considering the depressed condition of the industry—to very poor. Tobaccos slumped moderately in sales but were able to improve profit margins owing to higher prices after the ending of controls early last year.

Paper concerns had a good year, with good-sized increases in sales; profit margins held well, and per share earnings were satisfactorily above 1952. Companies in the building field fared variously, with few outstanding results. Earnings varied from 10% to 15% below 1952 to 10% to 15% above. Chemical concerns showed up well both as to sales trends and earnings. Most companies in this field were able to show moderate increases over 1952's profits, despite high taxes.

Continuation of high profits generally in the manufacturing group, in the face of the slower pace of the economy, as a whole, during the fourth quarter may be attributed to maintenance of relatively active production schedules to fill past orders. Moving along into the first quarter of 1954, production schedules are being cut to meet the decline in incoming orders while the continuing decline in backlogs will probably affect total volume of operations into the second quarter.

Lower sales in prospect may reduce profit margins but some offset is found in elimination of over-time pay and reduction in casual—and less experienced—labor force. Ending of excess profits tax should afford cushioning effect to major companies which have been well up in this bracket.

Generally, consumer soft goods industries are in stronger shape as regards inventory position, and sales in these essential and basic-living categories should be well-maintained, especially where moderate price concessions can attract large volume buying. Hard goods consumer industries are in a somewhat different position, as for example, in the automobile, household implement and TV sections. Signs of weakness in this group have appeared and the general outlook is for lower sales and production in the first quarter, with the trend probably continued into the second quarter. Under these conditions, first quarter earnings for the corporations involved are likely to be under those of any quarter of 1953. However, they should still be above dividend requirements except for marginal concerns which may find competition in coming months too strong to be able to maintain profit on the scale of recent years.

In the following, we present a brief analysis of earnings in 1953 and current trends for some of the larger concerns which have recently issued their final statements:

*U. S. Steel Corp.* 1953's earnings were the largest scored in the post-war period. Net income amounted

to $222.7 million, after $325 million for federal taxes. This was equivalent to $7.56 a share and compared with $4.54 a share the strike-torn year of 1952. The high point for earnings was reached in the September quarter when profits amounted to $2.12 a share, declining to $1.90 a share in the final quarter. It is difficult to attribute this decline to any individual factor although the five-point drop in operating rates for the entire industry of from 93% capacity in the third quarter to 88% capacity in the fourth undoubtedly had an effect. Another factor was a contribution of $12 million to U. S. Steel Foundation. Federal income taxes for the quarter were reduced to $24 million, the bulk of the year's tax requirements apparently having already been accounted for in the preceding three quarters. Depreciation and similar charges for the year were exceedingly heavy, amounting to $236 million against $176.9 million the previous year and $162 million in 1951. The increase in sales was astonishing, rising from $3.1 billion in 1952 to $3.8 billion in 1953 and contrasting with $3.5 billion in 1951. The year's rise in federal income taxes to $325 million, against $117 million in 1952 and $398 million in 1951, was paralleled, though at a much lower level, by a rise in state, local and miscellaneous taxes of from $68.2 million to $89.2 million. Mr. Fairless, the President of the company, estimates an operating rate of about 80% for the first six months of this year. This would be equivalent to about 85% on the smaller capacity of a year ago. On the lower operating rate, in prospect it is likely that profits for the first quarter will decline, though probably hold above dividend requirements. Higher freight cost absorption and some minor price weakness is an increasing factor. Absence of EPT, however, will act to cushion any drop in profits to a considerable extent.

*Liggett & Myers Tobacco Co.* Features of the L. & M. 1953 report were: a decline in sales of about 2½%, a rise in the net profit margin of from 3.5% to 3.9%, and a rise in earnings of from $5.11 a share to $5.50 a share. The decline in total sales was more or less uniform throughout the industry. However, profit margins increased owing to higher prices after the end of federal controls and thus offset the effects of lower volume. Better cost control is indicated by the company's successive quarterly increases in profits per share. Total costs dropped from $549.7 million in 1952 to $526.8 million in 1953, with part of the difference obviously accounted for by the smaller volume of business, necessitating smaller expenses. To satisfy the increasing demand for "filter" cigarettes, the company has added L. & M. Filters to its regular brands, at the same time adding

### *Comparative Sales, Earnings and Net Profit Margins of Leading Companies*

| | Net Sales 1953 | Net Sales 1952 | Net Profit Margin 1953 | Net Profit Margin 1952 | Net Per Share 1953 | Net Per Share 1952 | Net Per Quarter 1953 1st | 2nd | 3rd | 4th |
|---|---|---|---|---|---|---|---|---|---|---|
| | (Millions) | | % | | | | | | | |
| Air Reduction | $ 131.4 | $ 124.6 | 5.1% | 5.8% | $ 2.06 | $ 2.25 | $ .57 | $ .53 | $ .52 | $ .44 |
| Allied Chemical & Dye | 545.5 | 490.1 | 8.2 | 8.2 | 5.10 | 4.55 | 1.11 | 1.34 | 1.36 | 1.29 |
| American Can | 660.5 | 621.6 | 4.6 | 4.4 | 2.56 | 2.25 | .52 | .49 | 1.14 | .41 |
| Atlantic Refining | ...... | 602.8 | ...... | 6.7 | 5.41 | 4.37 | 1.21 | 1.24 | 1.14 | 1.83 |
| Avco Mfg. | 414.7 | 326.5 | .8 | 3.3 | .34 | 1.20 | .31 | .04 | (d) .03 | .02 |
| Bethlehem Steel | 2,082.0 | 1,691.7 | 6.4 | 5.3 | 13.30 | 8.80 | 3.06 | 2.81 | 3.38 | 4.05 |
| Case (J. I.) Co. | 111.4 | 153.5 | .7 | 4.5 | .06 | 2.83 | (d) .35 | .25 | .22 | (d) .06 |
| Caterpillar Tractor | 433.8 | 477.5 | 4.6 | 4.6 | 4.84 | 5.52 | 1.49 | 1.42 | 1.29 | .76 |
| Container Corp. | 187.5 | 178.4 | 5.4 | 5.7 | 4.93 | 5.01 | 1.18 | 1.21 | 1.30 | 1.24 |
| Dayton Rubber | 57.9 | 54.0 | 2.7 | 2.7 | 2.57 | 2.47 | .74 | .68 | .69 | .47 |
| Deere & Co. | 378.5 | 383.1 | 6.5 | 9.1 | 3.37 | 4.93 | .56 | 1.33 | .85 | .63 |
| Devoe & Raynolds "A" | 48.9 | 45.8 | 3.4 | 3.6 | 3.06 | 2.49 | .32 | 1.03 | 1.08 | .62 |
| Divco Corp. | 9.7 | 8.7 | 5.2 | 4.4 | 1.13 | .86 | .15 | .23 | .25 | .50 |
| Endicott Johnson | 140.0 | 142.9 | 1.4 | 1.8 | 2.23 | 2.82 | ...... | 1.65[1] | ...... | .58[1] |
| Freeport Sulphur | ...... | 38.2 | ...... | 19.1 | 3.56 | 3.05 | .79 | .92 | .80 | 1.04 |
| Gair (Rob't) Co. | 118.2 | 107.5 | 5.4 | 5.6 | 2.95 | 2.79 | .75 | .73 | .64 | .83 |
| Grumman Aircraft | 241.0 | 220.6 | 2.9 | 2.4 | 3.56 | 2.67 | ...... | 1.84[1] | ...... | 1.72[1] |
| Hercules Powder | 196.9 | 187.4 | 5.9 | 6.0 | 4.20 | 4.03 | 1.16 | 1.28 | 1.04 | .72 |
| Inland Steel | 575.5 | 460.4 | 5.8 | 5.1 | 6.90 | 4.85 | 1.39 | 1.81 | 1.71 | 1.99 |
| Johns-Manville | 252.6 | 244.7 | 7.7 | 9.2 | 6.20 | 7.14 | 1.56 | 2.02 | 1.42 | 1.20 |
| Jones & Laughlin Steel | 624.3 | 495.4 | 4.9 | 3.9 | 4.77 | 2.91 | .85 | 1.67 | 1.36 | .89 |
| Koppers Company | 270.5 | 323.0 | 3.3 | 2.6 | 4.51 | 4.29 | 1.05 | 1.24 | 1.05 | 1.17 |
| Libbey-Owens-Ford Glass | 212.4 | 166.4 | 11.2 | 8.9 | 3.72 | 2.88 | .76 | .91 | .96 | 1.10 |
| Liggett & Myers Tobacco | 586.5 | 603.0 | 3.9 | 3.5 | 5.50 | 5.11 | 1.13 | 1.37 | 1.49 | 1.51 |
| Mullins Mfg. | 70.5 | 53.7 | 4.7 | 6.7 | 2.44 | 2.63 | .75 | .50 | .62 | .57 |
| National Biscuit | 359.0 | 346.5 | 5.0 | 5.1 | 2.61 | 2.56 | .55 | .65 | .65 | .75 |
| National Steel | ...... | 548.6 | ...... | 6.8 | 6.68 | 5.10 | 1.51 | 1.77 | 1.77 | 1.63 |
| Norwich Pharmacal | 18.8 | 18.0 | 7.7 | 7.6 | 1.61 | 1.52 | .29 | .31 | .51 | .50 |
| Ohio Oil | ...... | 223.2 | ...... | 17.6 | 6.63 | 6.00 | 1.59 | 1.52 | 1.92 | 1.60 |
| Oliver Corp. | 136.6 | 134.4 | 2.0 | 4.4 | 1.18 | 2.71 | (d) .16 | .44 | .35 | .55 |
| Owens-Corning Fiberglas | 131.7 | 113.4 | 4.0 | 4.4 | 1.70 | 1.61 | .50 | .41 | .45 | .34 |
| Rohm & Haas | 120.6 | 105.7 | 5.4 | 5.1 | 6.73 | 5.51 | 1.77 | 1.86 | 1.54 | 1.56 |
| St. Regis Paper | 200.3 | 182.7 | 8.0 | 6.9 | 2.91 | 2.32 | .70 | .61 | .54 | 1.09 |
| Shamrock Oil & Gas | 34.1 | 31.9 | 16.6 | 15.3 | 3.83 | 3.31 | 1.01 | .91 | .89 | 1.03 |
| Sunbeam Corp. | 79.8 | 66.3 | 8.3 | 9.1 | 3.70 | 3.36 | .98 | .74 | .92 | 1.05 |
| Union Carbide & Carbon | 1,025.8 | 955.9 | 10.0 | 10.2 | 3.55 | 3.41 | .89 | .93 | .91 | .82 |
| U. S. Steel | 3,861.1 | 3,137.3 | 5.7 | 4.5 | 7.56 | 4.54 | 1.65 | 1.89 | 2.12 | 1.90 |
| Universal Pictures | 70.4 | 64.1 | 3.7 | 3.6 | 2.35 | 2.15 | .43 | .84 | .90 | .23 |
| Wheeling Steel | 217.3 | 178.2 | 5.7 | 6.1 | 7.49 | 6.43 | 1.77 | 2.56 | 1.75 | 1.41 |
| Youngstown Sheet & Tube | 554.0 | 439.6 | 5.5 | 5.2 | 9.21 | 6.84 | 2.08 | 2.38 | 2.41 | 2.34 |

(d)—Deficit. [1]—6 months.

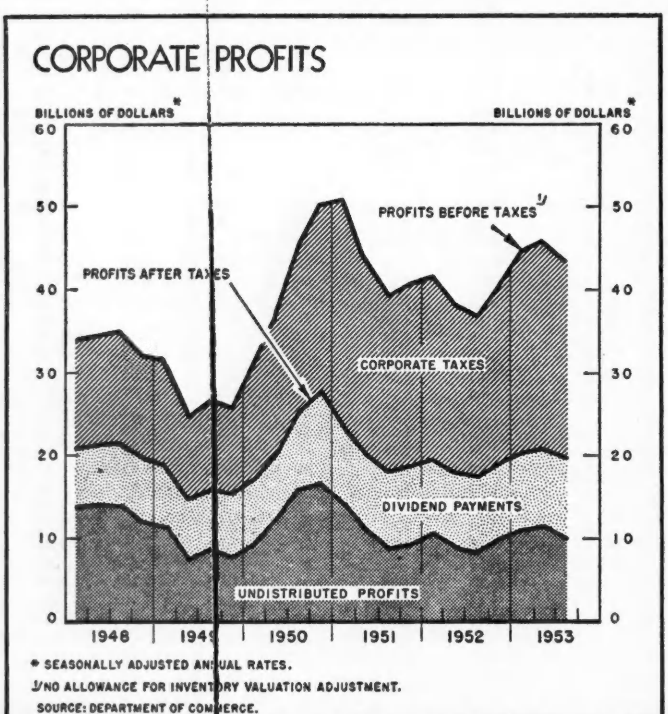
cork tips to its successful Fatimas. Chesterfields, of course, remains the money product. Some concern has been expressed over the effects of the recent "lung-cancer" publicity but this already seems to be less threatening a factor with public interest subsiding. Based on the higher prices which have been equivalent to 0.8 cents a pack additional revenue for the manufacturers, as well as the lower operating expenses, it would seem that the company should continue to maintain earnings at somewhere near recent levels though perhaps not at the last quarterly peak.

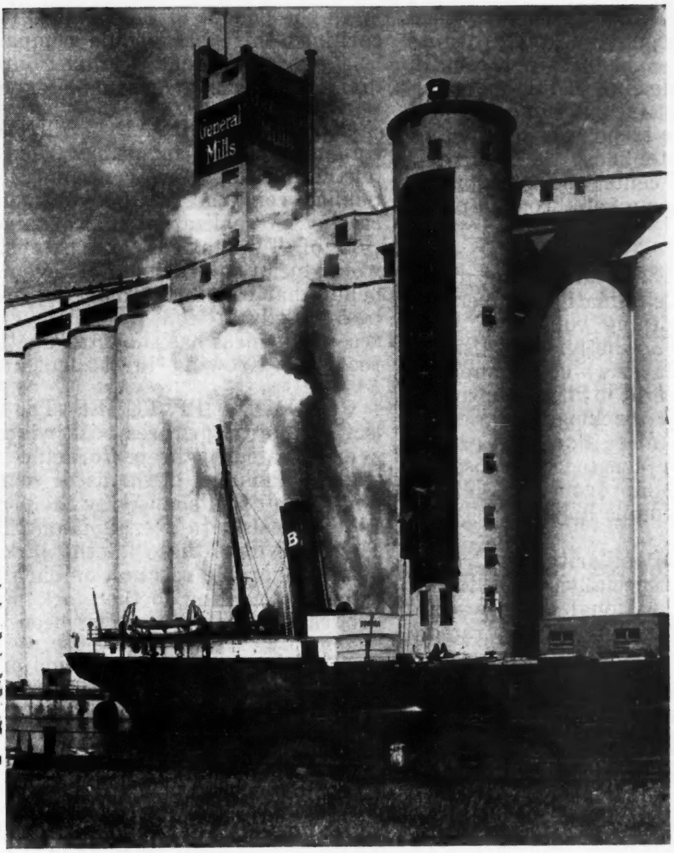
*Johns-Manville Corp.* A moderately downward tendency in earnings, on a quarterly basis, was established for this company in 1953. Except for the second quarter, earnings have receded and, in the final period, were lower than in the first quarter of the year. This was against a background of higher sales which were $252.6 million against $244.7 million the previous year. The change in earnings is revealed in the rather marked drop in net operating margin, which averaged 7.7% in 1953 against 9.2% in 1952. Although certain price increases were put into effect, operating margins were affected by lower demands for some grades of asbestos, higher depreciation charges due to the new Munro mine in Canada, and an increase in wages and salaries. Profits before taxes were $40.3 million, compared with $45.6 million in 1953 and $54.2 million in 1951. Income and other taxes took approximately 51% of profits in 1953, slightly more than in 1952. The boom in asbestos products which has been in process for a number of years is now giving place to more normal conditions. Supply and demand unlike the situation several years ago, are in balance with indications that nearby demand will not absorb full productive facilities. On the other hand, the company is well prepared both financially and with respect to new and modernized facilities to meet conditions as they develop. In any case, dividends should be covered without any difficulty.

*Allied Chemical & Dye Corp.* This company has just completed a very successful year, earnings, in fact, reaching the highest point in its history. Sales increased $55 million to $586.5 million last year. At the same time, through highly efficient operation, the net profit margin was fully maintained on these sales, resulting in an increase in net income, after taxes, to $45.1 million, compared with $40.1 million the preceding year. Consequently, 1953 earnings were equivalent to $5.10 a share, compared with $4.55 a share in 1952. Earnings on a quarterly basis were well-maintained throughout the year. Sales in 1954 should be aided through new facilities which will be placed in operation, and profit margins sustained through new products which are in increasing demand. On the whole, the various divisions of the company are operating satisfactorily with only a few products affected by price cuts. New capacity for such products as polyethelene for plastics, phenol, sulphuric acid and synthetic benzol have been completed, in large part, and will enhance prospects for sales. About $100 million will be spent on capital improvements this year as against an estimated $150 million in 1953. Cash flow is aided by heavy depreciation charges, amortization of facilities covered by certificates of necessity alone increasing from $2.4 million in 1952 to $7.8 million in 1953.

*National Steel Corp.* Earnings were the second best in the company's history being exceeded only by 1950. Net income was $49.1 million, after absorbing a special loss of $1.1 million from the sale of the Weirton mine in West Virginia. On a per share basis, National Steel's net was $6.68 compared with $5.10 the year previous. This percentage increase for the year was about in line with most other major steel producers. Quarterly earnings were steady but were marked by a slight shading in the final period. This was due in part to the smaller demand for steel and to strike in the can-making industry which affected the mill shipments. As an important producer of flat rolled products for the automobile industry, the company's sales in the period immediately ahead will probably be affected by the lower volume of automobile manufacturing which is in prospect for this period. For that reason, earnings for the first quarter may react from the peak of last year but should be well cushioned by the end of requirements for meeting excess profits taxes. Much of the company's expansion program has been completed, in particular the new mill of its Great Lakes Steel Corp. which cost $35 million. Though some uncertainty exists on nearby conditions in the automobile manufacturing industry, tinplate operations should continue active. This should tend to stabilize operations, as tinplate is an important division of the company's business.

*National Biscuit Co.* A moderate increase in dollar volume of sales followed the price increase put into effect last May. Sales amounted to $359 million against $346.5 million the previous year. Profit margins at 5% were held to approximately the same as 1952 with higher wage and materials costs offsetting the advance in prices; but this, in turn, is being balanced by lower wheat costs, an important factor (*Please turn to page* 638)






# Where Do 1953's Market Leaders Stand Today?

By J. S. WILLIAMS

IN the last issue in the article "What to Do About 1953 Dividend Casualties" we listed 84 companies which either reduced or passed their dividends in 1953. We described the factors which led to such unfavorable action and rated the respective issues, according to whether they should be retained or not.

In this article, we deal with a group of stocks which offer a strong contrast. They have stood out in last year's market from the standpoint of market performance, many of these issues gaining from 25% to 50% in market value from the end of 1952. Since the market last year was highly selective and generally not too favorable, the unusual strength of these stocks, in many cases continued in the first few weeks of 1954, commands especial attention.

Out of more than 100 stocks which last year scored appreciable gains in the stock market, we have selected 30 for special comment. These stocks have been selected on the basis of unusual market performance and investor interest. Our interpretation of the outlook for these issues is based on recent earnings trends and any special developments which may have had a determining influence on market behavior. These are mentioned briefly in the following text. Pertinent data is included in the table together with specific recommendations according to (a) the degree to which the advance in the individual issues apparently has discounted favorable prospects for the near-term though long-term outlook is still good and (b) where remaining appreciation prospects for long-term growth are substantial making it worthwhile holding through a possible reaction.

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ALUMINUM CO OF AMERICA – Evidence of growing demand for aluminum and promise of widening profit margins on increased sales contributed to the popularity of this stock. Aluminum undoubtedly has greatly strengthened its competitive position in relation to other metals as it has demonstrated its essentiality in the ever broadening defense program. Light metals are required in aircraft, jet and missile components as well as in motor cars to an increasing extent. Promise of continued long term growth should sustain prospects in the coming year.

AMERICAN HOME PRODUCTS – Reflecting benefits of expansion in previous years and increased efficiency of promotional efforts, this company took advantage of favorable economic conditions to improve its earnings position and to adopt a more generous dividend. Anticipation of a larger payout of profits probably contributed to demand for the stock. Financial position was improved by disposition of a relatively unimportant food product. Indications point to a slower rate of progress in the coming year.

AMERICAN NATURAL GAS–A combination of favorable circumstances enabled this company to register a better-than-average increase in earnings last year. Supplies of natural gas proved adequate

to meet increased consumer demand, while upward revision in rates enabled the company to improve its profit margin. Revenues rose about 15 per cent in 1953. With the benefit of a decline in the operating ratio to below 83 per cent, net income improved at a highly satisfactory rate. This trend was reflected in the management's decision to boost the quarterly dividend to 50 cents from 45 cents, and anticipation of the larger payout undoubtedly help broaden popularity of the shares.

BABCOCK & WILCOX–Expectation that relief from excess profits taxes and elimination of overtime wages would counteract declining volume of shipments probably accounted for a better appraisal of this company's outlook last year. As a larger supplier of equipment for power and light utilities, continued growth may be expected. Order backlogs may decline as utility managements move more slowly on expansion projects. Babcock has been noted for conservatism on dividends, but some improvement in distributions would appear a reasonable hope.

BOEING AIRPLANE – Popularity of aircraft stocks generally, and Boeing especially, can be traced to a strong conviction that national defense must be based largely on the Air Force. Boeing's strategic importance in the jet bomber and transport-tanker programs points to a high rate of operations for a long time to come. Sales expanded sharply as new and enlarged facilities began to function efficiently. Still higher volume is anticipated this year. Elimination of EPT should permit a further rise in earnings, and more generous dividends would seem possible.

BULLARD COMPANY–Anticipation of larger dividends undoubtedly contributed to the advance in this stock in 1953. The more liberal distribution was made possible by increased earnings. In common with most machine tool manufacturers, production has been boosted by the military program. Although incoming orders are declining, Bullard has a relatively high backlog and should fare well again this year. What 1955 has in store is problematical, but legislation authorizing fast writeoffs on plant expansion and new equipment purchases would be favorable for the industry of which Bullard is an important factor.

CARRIER CORP.–Enthusiasm over the growth potentialities of air-conditioning gave impetus to the rise in this stock. Extensive preparations of previous years began to bear fruit for this company in 1953, as weather conditions favored sales of room conditioners and spurred installations of equipment in industrial plants. Rapid expansion has brought in many new manufacturers and keener competition is to be expected. A trend toward narrower profit margins would seem logical. The sharp rise may invite profit-taking in this group.

CINCINNATI MILLING MACHINE–As a leading manufacturer of milling machines and other machine tools, this company ranked high in the armament boom. Popularity of the stock gained momentum last year in anticipation of favorable earnings and more generous dividends. Despite a gradual decline in unfilled orders, the backlog is regarded as adequate to assure satisfactory operations in 1954. With the benefit of EPT relief, it is estimated that earnings this year should compare favorably with last year's excellent results. Continuance of liberal dividends seems a reasonable expectation.

COLUMBIA BROADCASTING SYSTEM – Continuation of the favorable trend in time sales on telecasting facilities contributed to the investing public's confident attitude toward Columbia Broadcasting. A realization that resumption of construction of TV stations and extension of telecasting would mean enlargement of revenues encouraged the belief that earnings would improve. This trend appears likely to continue this year. Meantime, the record business has shown indications of a sustained recovery. Growing investment interest is evident.

COLUMBIA PICTURES–The importance of selecting motion pictures with wide popular appeal is demonstrated in the performance of this company's shares. Earnings in the fiscal year to end next June have been lifted sharply by the fine reception accorded "From Here to Eternity" and "Miss Sadie Thompson"–two films that "hit the jackpot." Anticipation of the favorable reaction on earnings and dividends directed attention to the stock. Full benefits of the program probably have not been fully discounted.

CORNING GLASS–As a major producer of television picture tube blanks, used by virtually every important manufacturer in the industry, this company solidified its position in a growing industry. Its stock, with a reputation for stability and for conservative management, had appeal for growth among institutional investors who felt disinclined to assume the risks involved in shares of principal set manufacturers. Further progress is anticipated with the elimination of EPT. Narrower profit margins seem possible this year.

DOUGLAS AIRCRAFT – (*Please see special article, page* 620)

duPONT–One of the most popular portfolio blue chips, this stock has disappointed pessimists in refusing to decline in reflecting indications of keener competition and narrowing profit margins in chemicals. The answer may be found in the fact that few owners of duPont ever wish to sell. Hence, it is not easy to depress the shares by short-selling. Subsequent covering in recent months contributed an added demand for the stock. Promise of a good year for General Motors, of which duPont is the largest holder, is a sustaining factor.

EASTMAN KODAK–Popularity of seasoned dividend-payers may have accounted largely for Eastman's forward progress last year. High national income, tending to encourage wider activity in amateur photography, undoubtedly aided sales volume. Rapid population growth also serves as a spur to picture-taking. Competition appears to be developing, however, and margins in amateur photography supplies may be growing narrower.

FIRST NATIONAL STORES–With take-home pay rising, chain food stores are experiencing increased sales. First National has shared in the progress with enlargement of its supermarket chain. Earnings have pushed forward in reflecting the uptrend in business. In anticipation of more liberal dividends, buyers have shown growing preference

for this seasoned representative of a stable industry.

FOOD FAIR STORES—Somewhat similar influences have accounted for the better-than-average showing of this stock. Aggressive management, reflected in continued growth in units and in volume, has appealed to investors. The policy of consistent distributions in stock to supplement cash dividends also has proved popular. The company's growth record probably has been an important recommendation to the investing public.

GENERAL ELECTRIC—Two principal factors contributing to popularity of this market leader have been the company's vital link to the Government's Atomic Energy program and a keen appreciation of the importance of growth in power and light utilities. With consumption of electricity pushing ahead so rapidly, it is apparent that manufacturers of heavy apparatus will be called upon to install generating capacity in ever increasing quantities. Hope of improved earnings after elimination of EPT and intimations of a stock split surely must have contributed importantly to unusual demand for this stock in 1953.

GENERAL FOODS—Apprehension over an impending recession in business, reflected in emphasis on defensive investments, contributed to portfolio accumulation of this stock. As a matter of fact, deflationary trends in commodities were expected to permit lower costs for food processors and to contribute to wider profit margins. Here again, talk of plans for a stock split and hopes of more liberal dividends served as additional factors tending to bolster demand.

GENERAL TELEPHONE – Reflecting higher rates approved in certain areas and a generally satisfactory level of business activity, revenues rose well ahead of expectations and encouraged investment interest in shares on basis of a favorable return. Promise of long term growth in the trend toward expansion of small communities in which the company operates is a factor appealing to investors dependent on income. Recent stock split paves way for future gains.

GILLETTE—Steady rise in earnings, stimulated by aggressive advertising, contributed to advance in shares in anticipation of larger dividends which materialized toward year-end. Encouraging promotional results achieved in Toni division added to rapid rate of progress. Prospective benefit from lower taxes this year is expected to sustain forward progress and completion (*Please turn to page* 638)

### *Stocks with Largest Market Gains in 1953*

| | 1953 Year-end Price | 1953 Points Up From Close of 1952 | 1953 % Gain From Close of 1952 | Points Up From Low of 1953 | % Gain From Low of 1953 | Recent Price (1954) | Earnings Per Share 1952 | Earnings Per Share Estimated 1953 | Indicated Div. | Div. Yield | Rating |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Aluminum Co. of America | 59⅝ | 11¾ | 24.5% | 17⅛ | 40.4% | 64 | $ 4.19 | $ 4.90 | $ 1.60 | 2.5% | (B) |
| American Home Products | 48 | 10¾ | 28.8 | 11⅞ | 32.7 | 45½ | 3.03 | 3.60 | 2.30 | 5.0 | (B) |
| American Natural Gas | 40¾ | 5⅝ | 16.0 | 9½ | 30.4 | 41½ | 2.34 | 3.55 | 2.00 | 4.8 | (B) |
| Babcock & Wilcox | 43⅝ | 5½ | 19.9 | 7⅞ | 21.9 | 45½ | 5.86 | 7.00 | 2.00 | 4.2 | (A) |
| Boeing Airplane | 48 | 7¾ | 19.2 | 11½ | 31.5 | 54 | 8.67 | 10.75 | 3.50 | 6.7 | (B) |
| Bullard Co. | 26⅜ | 8½ | 62.3 | 8⅞ | 50.5 | 31 | 4.04 | 7.20 | 4.00 | 13.7 | (A) |
| Carrier Corp. | 46½ | 11⅝ | 33.3 | 12 | 34.7 | 51 | 4.89 | 4.19[4] | 2.00 | 4.0 | (A) |
| Cincinnati Milling Machine | 50½ | 15 | 42.2 | 15⅛ | 42.9 | 58 | 11.14 | 12.50 | 4.00 | 7.2 | (A) |
| Columbia Broad. System "A" | 48 | 9 | 23.0 | 14¾ | 44.4 | 44 | 2.75 | 3.75 | 1.85 | 4.1 | (B) |
| Columbia Pictures | 20¾ | 8¼ | 72.9 | 9⅛ | 78.4 | 20 | .80 | .99[2] | .25[1] | 1.1 | (B) |
| Corning Glass | 88½ | 10¼ | 13.0 | 18½ | 26.4 | 91 | 3.77 | 4.90 | 2.00 | 2.1 | (A) |
| Douglas Aircraft | 82⅝ | 20⅛ | 32.2 | 22⅝ | 37.7 | 95 | 8.99 | 15.00 | 6.50 | 6.8 | (A) |
| Du Pont | 107⅜ | 10¾ | 11.1 | 16⅜ | 18.0 | 109 | 4.70 | 4.95 | 3.80 | 3.4 | (B) |
| Eastman Kodak | 47⅛ | 2⅜ | 10.5 | 6½ | 15.6 | 50 | 2.74 | 2.90 | 1.80 | 3.6 | (A) |
| First National Stores | 52½ | 8 | 17.9 | 11½ | 28.0 | 51 | 4.12 | 4.50 | 2.00 | 3.9 | (B) |
| Food Fair Stores | 31⅜ | 6⅞ | 34.2 | 8⅝ | 38.1 | 33 | 1.62 | 1.86[3] | .80 | 2.4 | (B) |
| General Electric | 87½ | 14¾ | 20.2 | 21¼ | 32.1 | 93 | 5.26 | 5.40 | 4.00 | 4.3 | (B) |
| General Foods | 59⅞ | 6½ | 12.1 | 9 | 17.7 | 57 | 4.31 | 3.90 | 2.65 | 4.4 | (B) |
| General Telephone | 44½ | 9⅝ | 27.5 | 9¾ | 28.1 | 49 | 3.15 | 3.95 | 2.20 | 4.5 | (B) |
| Gillette | 47¼ | 15⅛ | 47.0 | 15 | 46.5 | 47 | 3.33 | 4.20 | 2.75 | 5.7 | (A) |
| Lilly Tulip Cup | 76¼ | 3½ | 4.8 | 17¾ | 30.3 | 86 | 5.96 | 6.75 | 2.50 | 2.7 | (A) |
| Minnesota Mining & Mfg. | 58 | 10⅛ | 21.1 | 16 | 38.1 | 56 | 1.96 | 2.20 | 1.00 | 1.7 | (B) |
| National Lead | 38⅝ | 6⅝ | 20.7 | 9 | 30.4 | 40 | 2.06 | 2.45 | 1.75 | 4.3 | (B) |
| Rohm & Haas | 149⅞ | 19⅜ | 19.4 | 34⅞ | 30.3 | 165 | 5.73 | 6.73[5] | 1.60 | 1.0 | (B) |
| Scott Paper | 70 | 12 | 20.6 | 16 | 29.5 | 77 | 3.44 | 3.65 | 3.00 | 3.8 | (A) |
| Spencer Chemical | 58¾ | 9¾ | 19.8 | 14¾ | 33.3 | 59 | 3.61 | 4.01[2] | 2.40 | 4.1 | (B) |
| Sutherland Paper | 31½ | 5⅝ | 21.7 | 6½ | 26.0 | 33½ | 2.74 | 3.25[5] | 1.50 | 4.4 | (B) |
| United Aircraft | 46⅝ | 8⅝ | 22.6 | 14¾ | 46.3 | 50 | 5.18 | 6.70 | 2.75 | 5.4 | (A) |
| Visking Corp. | 58¼ | 20¾ | 70.6 | 21¾ | 59.5 | 65 | 3.67 | 4.85 | 2.00 | 3.2 | (A) |
| Wrigley (Wm.) Jr., & Co. | 79 | 7¼ | 10.1 | 7¾ | 10.8 | 82 | 4.41 | 4.90 | 4.00 | 4.8 | (B) |

1—Plus stock.
2—Year ended June 30, 1953.
3—Year ended April 30, 1953.
4—Year ended Oct. 31, 1953.
5—Year ended Dec. 31, 1953.

**RECOMMENDATIONS —**

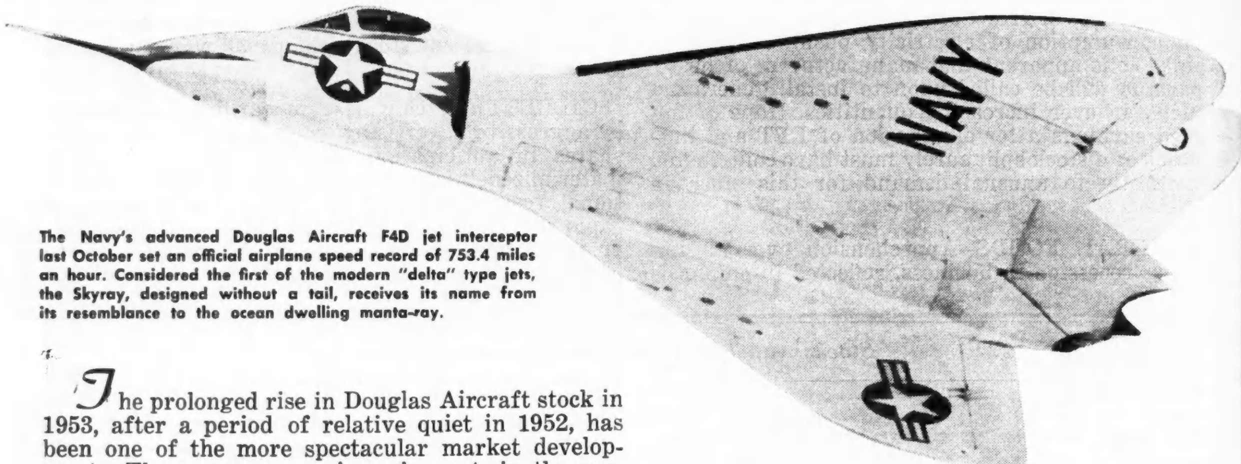
**(A)—Limitation of near-term market prospects indicated after recent substantial advance. For investors interested mainly in current market position of stock, partial acceptance of profits would seem desirable.**

**(B)—Above-average long-term prospects suggests desirability of continued holding despite possibility of intermittant market reactions. This would be of interest mainly to long-term investors.**

# . . . *New Peaks for* . . .

# DOUGLAS AIRCRAFT?

By JOHN D. C. WELDON




**The Navy's advanced Douglas Aircraft F4D jet interceptor last October set an official airplane speed record of 753.4 miles an hour. Considered the first of the modern "delta" type jets, the Skyray, designed without a tail, receives its name from its resemblance to the ocean dwelling manta-ray.**

The prolonged rise in Douglas Aircraft stock in 1953, after a period of relative quiet in 1952, has been one of the more spectacular market developments. The answer was given, in part, in the preliminary earnings report which indicated a net for the 1,200,000 shares of common stock of $15.50 a share or approximately $18.6 million, the largest in the company's history. An even more important factor in the response of investors to the brilliant earnings picture was appreciation of the likelihood that these earnings probably would be exceeded in the current year.

Douglas entered 1954 with a backlog of about $2.2 billion compared with $2 billion the previous year. If the proportion of military contracts remains substantially unchanged from the past several years, this would mean approximately $1.975 billion in the defense backlog and about $225 million for commercial aircraft.

Investors interested in the aircraft industry, fully understanding the implications of any possible sudden shift in government policy on military aircraft procurement, both as to total volume of orders and as to flow of orders affecting individual companies, have closely followed the President's recent budget recommendations. This definitely indicates that, if Congress approves, aircraft procurement expenditures for fiscal 1955 will be in the neighborhood of $8.3 billion, only about $100 million less than in the preceding fiscal year. In proportion to the immense bulk of scheduled orders, this minor decline is of small significance. Accordingly, there is a firm foundation for the belief that the industry will be fully active for at least the next year and a half. Since the grim world situation has not fundamentally altered for the better, it is quite possible that heavy production of military aircraft will continue into 1956-1957. The objective of the Defense Department is to increase the present scheduled 33,000 planes, of which one third are jets, to 40,000 planes, of which one half will be jets. Supporting the earnings base of Douglas, in particular, is the fact that the guided missile program in which the company is very active, will be stepped up, and thus aid in maintaining capacity operations for the next two years.

In the airplane manufacturing industry, all the important companies for years developed new designs for specialized military and commercial use and it would be difficult to say that any individual company could hold an advantage for long in a particular category. In this respect, competition among the largest concerns resembles that of a never-ending race, in which one company assumes leadership in a particular type of aircraft and another in another type, only to be displaced in time by other companies with differently-designed planes that meet new needs. It was a normal occurrnce in the industry, therefore, for Douglas to have assumed a dominant role in production of such types as the huge C-124 four-engine transport, the F4D Skyray delta (triangular) wing jet fighter, and the twin-jet bomber for the Air Force and Navy.

### Strong in Commercial Aircraft

It is in the commercial field that Douglas has a somewhat unique position and this is what gives it its potentiality for obtaining an important part of future civilian business. In this field, Douglas' big play is the new DC-7 which, together with the Lockheed Super-Constellation is occupying a dominant role in long-distance transport. This large plane is

in increasing demand by some of the more important airlines. At the same time, Douglas continues to develop its conventional plane types in which it has long had an imposing position in air transport.

Douglas has been cautious about entering the field of jet transport for commercial use although its designs are ready for production. Apparently the company wishes to learn more about British experience in this field before committing itself, and feels that it still has at least several years leeway.

Assuming the preliminary report of $18.6 million net earnings for the fiscal year ended November 30, 1953 to correspond precisely with the official report, it would appear that excess profits taxes played an even more important role than in the preceding year. EPT is estimated at from $8-$8.50 a share, compared with approximately $4.50 a share in 1952. Since there is little indication of a possible reduction below capacity operations for the full year 1954, it would appear that with the ending of EPT earnings for the coming fiscal year will be not far from $20 a share. Some revision, however, may have to be allowed for owing to the possibility of renegotiation, which may take the form of "re-pricing" rather than the old war-time method. However, any impact from this direction should be moderate and probably will not influence earnings excessively.

### Can Peak Earnings Be Maintained?

With full-time operations, the company has entered a period of maximum earnings possible under present and prospective conditions. With $15.50 a share earned for fiscal 1953 and possibly close to $20 a share for fiscal 1954, it is quite obvious, in a comparison with post-war earnings, that the company is in an abnormally high earnings area which can be prolonged only as long as military contracts, on which it is dependent to a large degree, remain on the present scale. As we have seen, the expectations are—barring a war or similar crisis—for two years capacity operations. Although no one can say for sure, especially in view of still unsettled international conditions, it is logical to anticipate a leveling off after 1956. In the period 1949 to 1952, before the full impact of government business was felt, earnings were on the comparatively moderate scale of from $4.60 a share—in 1949—to $8.99 a share—in 1952. At the expiration of the period of maximum production for military planes, it is conceivable that Douglas' earnings could revert to something like the post-war pattern, resembling the period 1946-49. This is frankly in the realm of conjecture but the comparison is made in order that the enormous earnings of this company—and others in the field—be kept in proper perspective.

Sales for fiscal 1953 were $864 million compared with $522 million the previous year. This extremely large jump in volume, which includes accruals and amounts reimbursed on cost-plus contracts, was made possible as the company went into full production and near-term deliveries stepped-up. In view of the company's nearly $2 billion backlog of military orders and the presumed intention of the government to allow nothing to interfere with the fulfillment of its aircraft program, it is likely that 1954 sales will remain on a par with the past year and may even exceed it. In this connection, broad construction programs at its three major plants, Segundo, Long Beach and Santa Monica have produced sufficient space, always a pressing problem for the company in a period of expansion, to provide for capacity operations, so that full maintenance of sales and deliveries is provided on the basis of plant effectiveness.

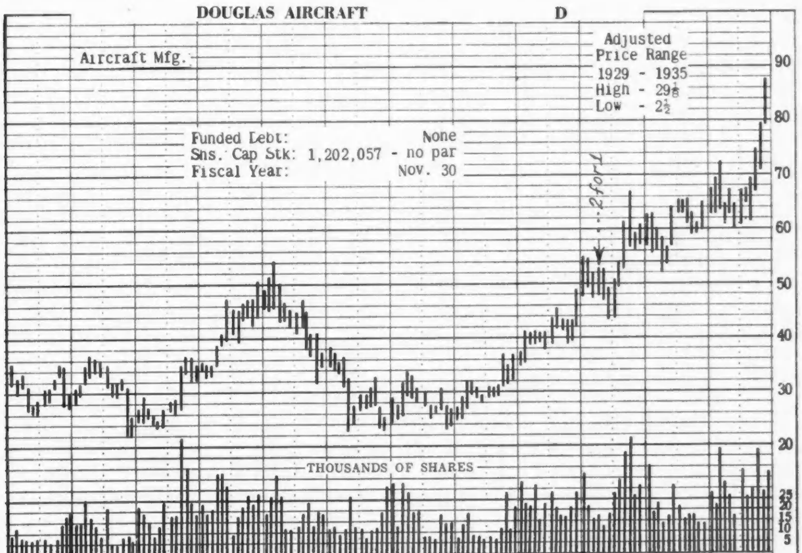
Affording a basis for optimism regarding stability of operations, the company has fully established sound working arrangements with its labor force, the latest development being a 5-cent an hour raise plus a one-cent an hour living increase bonus. It is considered that for the time being at least, labor problems will not vex this company.

The company's dividend policies are of unusual interest. In common with other companies in a field where earnings normally fluctuate more rapidly than in others, dividends generally vary considerably from year to year. On an adjusted basis (the company split its shares two-for-one in 1951) dividends were as follows since 1949: $3.12½ cents a share in 1950; $3.50 a share in 1951, $3.75 a share in 1952 and $6.75 a share in 1953. The company has already declared for its first 1954 payment the regular $1 quarterly dividend plus an extra of $1.50 a share.

### Dividend Outlook

It is noticed that the percentage of dividend payout has decreased as earnings mounted. Thus, the company paid out 52% of earnings in calendar 1950; 60% in 1951, but dropped the rate to 41% in 1952 and 43% in 1953.

Assuming earnings of (*Please turn to page* 638)



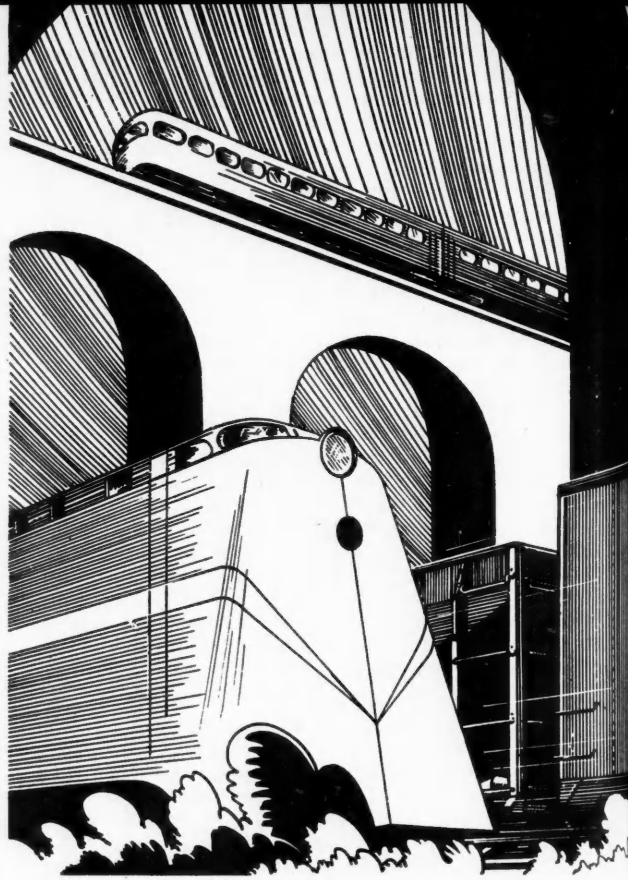

| 1942 | 1943 | 1944 | 1945 | 1946 | 1947 | 1948 | 1949 | 1950 | 1951 | 1952 | 1953 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 7.69 | 4.96 | 6.41 | 7.47 | 1.82 | d 1.79 | 4.86 | 4.60 | 6.01 | 5.76 | 8.97 | *11.09 | EARN. |
| 2.50 | 2.50 | 2.50 | 2.50 | 3.75 | 1.25 | 2.50 | 4.62½ | 3.12½ | 3.50 | 3.75 | 6.50 | DIV. |
| 34.0 | 35.4 | 49.6 | 64.2 | 58.4 | 55.2 | 58.6 | 57.7 | 58.2 | 49.4 | 49.2 | Wkg Cap $ Mil | |

*9 months

* * *

# Which Rails Are in Best...Poorest Position?

By EDWARD S. WILSON



Since our review of the railroad industry in the November 14, 1953 issue, traffic and earnings have continued their downtrend. Carloadings declined only 6.3% below 1952 levels in September and 3.2% in October, but this year-to-year decline widened to 10.9% in November, 9.7% in December, and 11.4% in the five weeks ended January 30 of this year. In recent weeks, the slide has been most severe in the largest and most important commodity classification, manufactured and miscellaneous goods, which carries the highest rate and is generally considered the most profitable tc haul. Reflecting this lower level of traffic and the usual time lag in gaining control of operating expenses, net income of Class 1 carriers in the last four months of 1953 showed the following drop from the previous year: (000s)

| Period | 1952 | 1953 | % Change |
|---|---|---|---|
| September | $ 99,054 | $ 80,493 | –18.7% |
| October | 97,319 | 87,679 | – 9.9 |
| November | 87,431 | 58,960 | –32.6 |
| December | 105,599 | 101,286* | – 4.1 |
| Last 4 months | $389,403 | $328,418* | –15.7% |
| *Estimated | | | |

On the other hand, the outcome of the wage negotiations with the operating and non-operating brotherhoods, which have clouded the outlook for railroad securities since last fall, promises to be more favorable than originally anticipated. The Brotherhood of Railway Trainmen (December 17), the Brotherhood of Firemen and Enginemen (January 9), and the Order of Railway Conductors (February 5) have settled for a 5¢ an hour increase plus freezing of the 13¢ an hour cost-of-living increase into the basic wage rate and a three weeks' paid vacation for employees with over fifteen years' service. This package, including fringe benefits, is expected to cost roughly 6.7¢ an hour, or $200 million before taxes for Class 1 railroads. Contracts have not yet been signed with the engineers, switchmen and the non-operating employees, but, the recent settlements have probably set the pattern.

Currently, informed opinion leans to the view that net income of Class 1 railroads this year will drop to about $700 million from the $900 million estimated for 1953. However, this estimate will compare favorably with the $693 million reported in 1951 and $438 million in the recession year of 1949. It is noteworthy that 1953, 1952 (825 million) and 1950 ($784 million) were the only postwar years in which this year's forecast were surpassed.

Total dividend payment last year amounted to approximately $360 million, or 40% of net income, and on balance dividends should be well sustained in 1954. In fact, a few increases, i.e., Illinois Central, appear in prospect and the Southern Railway has already declared a $1 extra in addition to the $2.50 annual rate established as recently as January, 1953. ($2 previously).

It is obvious that the expected decline in 1954 earnings will vary greaty from region to region and from road to road. The superior performance both market and earningswise of the western and southern roads vs. the eastern and Pocahontas carriers has become increasingly evident since the slide in traffic started last September. Earnings of Class 1 railroads by regions in November, the latest month for which figures are available, conclusively show this relative trend in earnings as indicated in the accompanying table.

Moreover, the current outlook is for the southern and western roads to continue their comparative edge in operating performance this year. A significant contrast was recently provided by 1954 traffic forecasts of two important railroad mnagements—that of the Illinois Central, a typical western road, predicted a 5% drop this year while that of New York Central, a representative eastern road, a drop of 10%. Taking into account these regional char-

acteristics, as well as basic operating and financial position, dividend policy, and recent market action, we have attempted the difficult task of dividing 30 of the most actively traded railroad common stocks into the classifications of above average, average and poor from the standpoint of their 1954 outlook. (Please see large table.)

Our ten good roads are all from the South and West. In the average classification, we have one southern road, (Gulf, Mobile & Ohio), two western roads (St. Louis-San Francisco and Southern Pacific), two north western roads (Great Northern and Northern Pacific), four eastern roads (Baltimore & Ohio, Erie, New York, Chicago & St. Louis, and Reading) and one Pocahontas road (Chesapeake & Ohio). The poor group comprises six eastern carriers, two north western (St. Paul and Chicago & North Western) and two Pocahontas (Norfolk & Western and Virginian).

### Above-average Issues

The good group is generally characterized by a pronounced long term growth trend in traffic, generally low transportation expenses (an average transportation ratio of 32.4% in 1953) due to long average hauls and relatively little passenger traffic and terminal expenses, and a good carry-through of gross revenues to net operating income. This group on the average is selling at only 5.4 times 1953 earnings per share to yield 6.5% on present dividend rates, which amount to only 35% of last year's earnings.

As a group, these above-average issues have given the best market performance of the three since the end of 1952. They declined only 12% between the 1952 and 1953 year-ends and are now selling at less than 9% below their 1953-1954 highs. In fact, five of them, Atchison, Topeka & Santa Fe, Illinois Central, Kansas City Southern, Seaboard Air Line and Union Pacific, are at present very close to the tops of the past thirteen months. It is from this group that the bulk of the dividend increases have come in recent years and it is likely that this outstanding performance will continue. In this connection, average earnings per share of this group during the last four months of 1953, a period of a sharp slump in traffic, showed a year-to-year drop of only 14%.

The average group is selling at 5 times last year's earnings and yields 7.5% on current annual dividend rates, which amount to 37% of 1953 earnings. It is significant that the average group's transportation ratio in 1953 was 35.2% vs. 32.4% for the good group, its maintenance ratio was about the same, and its carry-through of gross to net moderately lower. With the price earnings multiple of the average group being only slightly lower than for the good group, some worthwhile *(Continued on page 642)*

**30 Railroad Stocks Above Average — Average — Poor**

| | 1952 Earned Per Share | 1952 Div. Per Share | 1953 Earned Per Share | 1953 Div. Per Share | Gross Revenues Last 4 Months 1952 (Millions) | Gross Revenues Last 4 Months 1953 (Millions) | Net Oper. Income Last 4 Months 1952 (Millions) | Net Oper. Income Last 4 Months 1953 (Millions) | Price Range 1953-1954 | Recent Price | Div. Yield 1953 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **ABOVE AVERAGE:** | | | | | | | | | | | |
| Atch., Top. & Santa Fe | $13.29 | $ 5.75 | $14.62 | $ 5.00 | $212.4 | $195.0 | $22.6 | $20.4 | 103 - 86 | 100 | 5.0% |
| Atlantic Coast Line | 21.03 | 6.00 | 14.60 | 6.00 | 53.8 | 50.0 | 3.9 | 3.9 | 119¾- 83¼ | 92 | 6.5 |
| Chicago, R. I. & Pac. | 13.57 | 4.00 | 16.07 | 4.50 | 73.0 | 63.9 | 10.2 | 9.1 | 76⅞- 59 | 68 | 6.6 |
| Ill. Central | 16.26[3] | 3.50 | 18.59[3] | 4.50 | 111.3 | 104.4 | 14.2 | 11.2 | 88½- 65⅛ | 85 | 5.3 |
| Kansas City Southern | 5.04 | 2.50 | 11.10[5] | 2.62½ | 25.6 | 25.4 | 4.4 | 4.4 | 45¼- 36⅜ | 42 | 6.2 |
| Louisville & Nashville | 10.73 | 4.50 | 13.10 | 5.00 | 79.1 | 74.8 | 11.7 | 11.1 | 67⅞- 55 | 62 | 8.0 |
| Seaboard Air Line | 7.88[2] | 2.10 | 8.90[3] | 3.00 | 51.0 | 48.3 | 7.7 | 7.3 | 47½- 36⅝ | 47 | 6.3 |
| Southern Railway | 9.57 | 2.00 | 11.63 | 2.50 | 94.7 | 91.9 | 15.4 | 14.4 | 49⅞- 38 | 45 | 5.5 |
| Union Pacific | 14.56 | 6.00 | 14.95 | 6.00 | 196.3 | 184.5 | 18.8 | 12.1 | 120¼-100 | 119 | 5.0 |
| Western Pacific | 6.68[4] | 3.00 | 8.37[4] | 3.00 | 21.8 | 19.2 | 3.4 | 3.0 | 67⅜- 46½ | 55 | 5.4 |
| **AVERAGE:** | | | | | | | | | | | |
| Baltimore & Ohio | 9.74[3] | .75 | 10.02[3] | 1.00 | 156.6 | 148.5 | 16.2 | 11.7 | 30⅜- 18⅜ | 20 | 5.0 |
| Chesapeake & Ohio | 5.66 | 3.00 | 6.04 | 3.00 | 120.3 | 111.5 | 22.6 | 19.8 | 41⅝- 32¾ | 35 | 8.5 |
| Erie | 4.57[3] | 1.75 | 4.31[3] | 1.75 | 63.2 | 58.8 | 7.9 | 5.8 | 22⅞- 16 | 18½ | 9.4 |
| Gt. Northern Ry. Pfd. | 9.10 | 4.00 | 9.84 | 4.00 | 101.3 | 96.1 | 13.8 | 11.3 | 58⅝- 45 | 50 | 8.0 |
| Gulf, Mobile & Ohio | 6.94[3] | 2.00 | 7.07[3] | 2.50 | 32.8 | 31.1 | 3.8 | 3.1 | 38⅛- 26⅜ | 29 | 8.6 |
| N. Y., Chicago & St. L. | 8.16[3] | 2.00 | 7.70[3] | 2.00[1] | 60.4 | 54.7 | 9.5 | 6.6 | 48⅛- 30 | 36 | 5.5 |
| Northern Pacific | 6.38 | 3.00 | 6.27 | 3.00 | 65.8 | 62.5 | 5.2 | 8.1 | 84 - 52 | 60 | 5.0 |
| Reading | 6.35 | 2.00 | 6.92 | 2.00 | 47.6 | 43.5 | 6.3 | 5.5 | 33⅞- 26¼ | 27 | 7.4 |
| St. Louis-San Francisco | 6.37[2] | 2.00 | 5.01[2] | 2.50 | 51.2 | 46.6 | 8.6 | 5.6 | 33¾- 22 | 26 | 9.6 |
| Southern Pacific | 6.92 | 2.87½ | 6.40 | 3.00 | 243.2 | 221.5 | 27.5 | 18.3 | 49¾- 35⅞ | 40 | 7.5 |
| **POOR:** | | | | | | | | | | | |
| Boston & Maine | (d) 2.43 | Nil | .93[3] | Nil | 31.7 | 28.9 | 2.7 | 1.9 | 13⅞- 5¾ | 6 | .... |
| Chi., Milw., St. P. & P. | 2.67[3] | 1.00 | 2.08[3] | 1.00 | 95.7 | 88.5 | 9.5 | 7.1 | 22⅜- 10 | 11½ | 8.7 |
| Chi. & North Western | (d) .58[3] | Nil | (d) .39[3] | Nil | 75.7 | 68.8 | 8.5 | 6.1 | 21½- 10⅛ | 11½ | .... |
| Del. Lack. & Western | 3.91[3] | .25 | 3.94[3] | .50 | 32.5 | 29.2 | 4.6 | 3.4 | 15⅜- 10⅜ | 14 | 3.5 |
| Lehigh Valley | 4.81[3] | Nil | 4.65[3] | Nil | 27.9 | 24.9 | 3.9 | 3.4 | 22⅝- 13½ | 14½ | .... |
| N. Y. Central | 3.83 | .50 | 5.27 | 1.00 | 290.3 | 270.5 | 28.4 | 22.0 | 25½- 18⅝ | 20½ | 4.8 |
| N. Y., N. H. & Hart. | 4.66[3] | Nil | 3.74[3] | Nil | 57.2 | 55.1 | 5.0 | 3.7 | 34 - 19⅞ | 29 | .... |
| Norfolk & Western | 5.05[3] | 3.50 | 4.83[3] | 3.50 | 65.9 | 64.2 | 11.1 | 10.5 | 53⅛- 39⅝ | 42½ | 8.2 |
| Pennsylvania R.R. | 2.81 | 1.00 | 2.81 | 1.50 | 368.7 | 329.5 | 27.8 | 17.6 | 23¾- 16⅝ | 17½ | 8.5 |
| Virginia Rwy. | 4.11 | 2.50 | 3.02 | 1.87½ | 13.9 | 12.5 | 2.9 | 2.5 | 35¾- 25¼ | 28 | 6.7 |

(d)—Deficit.
[1]—Plus stock.
[2]—After funds.
[3]—Before funds.
[4]—On a participating basis before funds.
[5]—Estimated.

★ ★ ★

# *The Struggle For Power In . . .*
# New York Central

By ROGER CARLESON

The announcement that Alleghany Corp.'s Robert R. Young and his associates had retired from the Chesapeake & Ohio Railway, for all practical purposes, is a warning whistle that the first round of a fight for control of the New York Central System was in progress.

There have been some important preliminaries: Alleghany, which at the time Young took over, held a 34 per cent interest or 2,585,000 shares of C. & O. stock, recently sold all of its remaining holdings of 104,854 shares to Cyrus S. Eaton, a long-time friend of Young, and who replaces him as C. & O. chairman; Allan P. Kirby has resigned as C. & O. president, and together with other officers and directors of Alleghany have sold whatever personal holdings of C. & O. they might have had. Completing the severance of Alleghany from C. & O., all contractural, lease and joint salary arrangements between the two companies have ended.

Young has made no secret of his intentions. He states that he has sold out so that he and Kirby would be free to acquire control of another carrier, meaning, of course, New York Central. This soon became obvious when he later announced that along with Kirby and the Alleghany Corp., he had acquired a substantial interest in New York Central and while not disclosing the amount of the holdings, considered them sufficient to warrant the demand that he and Kirby be given seats at Central's board of directors' table. Young also asked that he be made board chairman. New York Central directors have just rejected this demand stating "it would be inimical to the best interests of the company to grant Mr. Young's request."

Following this action, Central's management is wondering what will be the next move by Young. If he has girded himself for an all out fight for control it is more than likely that Young will endeavor to gain support of Central's stockholders, an effort that would start a contest for proxies to vote at Central's stockholders' meeting scheduled for next May 26. He now states he will follow this course.

Anticipating such a development, however, may be a little premature. Mr. Young may consider it expedient to move more slowly, being aware of the possibility that the Interstate Commerce Commission will want to have certain legal points within the jurisdiction of the Commission resolved before approval is forthcoming. At this stage, it is anyone's guess as to what action, if any, the ICC will take. The current situation is not comparable with that existing in 1947, when by invitation of New York Central, Mr. Young, then C. & O. chairman, and R. J. Bowman, C. & O. president at the time, applied to the ICC for permission to take their places on Central's directorate and were turned down.

At that time, C. & O. was the owner of 400,000 shares of Central's stock, a portion of which had been acquired earlier by Alleghany and later sold to C. & O. Giving consideration to this ownership, the Interstate Commerce Commission ruled against the appointment of Young and Bowman to Central's board, holding that their presence there would be a violation of the Interstate Commerce Act, as well as the anti-trust laws. The ICC also held that the two roads were com- (*Please turn to page* 640)

### *Comparative Data, C. & O. – N. Y. Central*

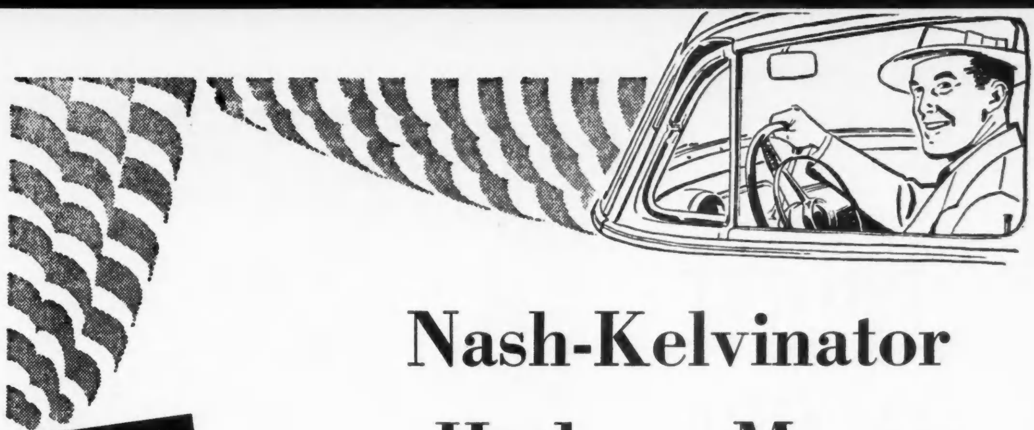
**CHESAPEAKE & OHIO RAILWAY**

| | Earnings Per Share | Dividends Per Share | Price Range 1946 to 1953 |
|---|---|---|---|
| 1946 | $ 3.62 | $ 3.50 | 66⅞-48¾ |
| 1947 | 4.33 | 3.00[1] | 54¾-40⅜ |
| 1948 | 3.72 | 3.00 | 45¼-31⅛ |
| 1949 | 1.36 | 3.00 | 34¾-27 |
| 1950 | 4.26 | 1.50 | 35¼-25 |
| 1951 | 4.80 | 2.25 | 38¼-28½ |
| 1952 | 5.66 | 3.00 | 39⅝-33½ |
| 1953 | 6.04 | 3.00 | 41⅝-32¾ |

**NEW YORK CENTRAL R.R.**

| | Earnings Per Share | Dividends Per Share | Price Range 1946 to 1953 |
|---|---|---|---|
| 1946 | (d)$1.62 | $ 1.00 | 35¾-13⅞ |
| 1947 | .36 | ...... | 22⅜-12 |
| 1948 | 2.28 | ...... | 18½-12⅛ |
| 1949 | 1.51 | .50 | 13½- 9¼ |
| 1950 | 2.84 | 1.00 | 21⅞-11½ |
| 1951 | 2.28 | ...... | 26¼-15½ |
| 1952 | 3.83 | .50 | 23½-17 |
| 1953 | 5.27 | 1.00 | 25½-18¾ |

1—Plus stock.



# Nash-Kelvinator —Hudson Merger

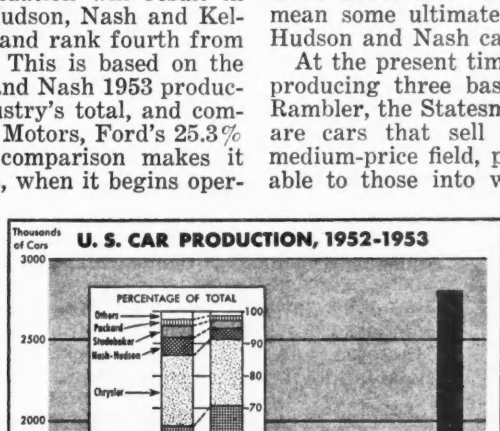
By GEORGE W. MATHIS

Barring unforeseen developments, a new name is shortly expected to join those of long standing in the automobile industry. Out of the proposed consolidation of Hudson Motor Car Co., and and Nash-Kelvinator Corp., will come the American Motors Corp. Directors of Hudson and Nash have already approved the merger, and on March 24 stockholders of the two companies will vote on the plan. If approved, the consolidation will result in the new company operating Hudson, Nash and Kelvinator as separate divisions, and rank fourth from the standpoint of car output. This is based on the combined showing of Hudson and Nash 1953 production equal to 3.4% of the industry's total, and compares with 45.6% for General Motors, Ford's 25.3% and Chrysler's 20.3%. This comparison makes it obvious that American Motors, when it begins operating, will have a long road to travel before it reaches a point where it can achieve a volume of car sales that would alter the standing of the "big 3" to the "big 4", with the new company being a member of the quartet.

Nevertheless, the foundations for such an accomplishment are present in the proposed consolidation of the two companies. As of Sept. 30, 1953, Hudson and Nash-Kelvinator had assets of more than $355 million and combined working capital of slightly more than $100 million. Of this latter sum Nash will contribute about two-thirds, with combined sales of the two companies for the 12 months ended Sept. 30, 1953, of $680 million, the proposed American Motors Corp., when brought into existance, would be off to a good start.

Officials of both Hudson and Nash-Kelvinator are agreed that among the advantages of the merger, to quote their own statement, are "pooling of executive abilities, research and engineering resources, and purchasing power". Then there will be opportunities for new manufacturing economies and improved methods; cutting individual overhead and administrative expenses, and a speeding of tooling costs over more units with a corresponding reduction in cost per unit. Although detailed information on the proposed new company's plan of operations is yet to be revealed, there is a suggestion in the latter statement about unit cost that might be interpreted to mean some ultimate change in production of both Hudson and Nash car models.

At the present time, Hudson and Nash have been producing three basic models each. Nash has the Rambler, the Statesman and the Ambassador. These are cars that sell in the low-price through the medium-price field, price brackets that are comparable to those into which Hudson's Jet, Wasp and Hornet models fall. Neither of the two companies has a basic series in the upper price bracket to compete with GM's Cadillac, Ford's Lincoln, Chrysler's Imperial or the New Yorker. Possibly, some revisions will eventually be made. This would be a natural move if the new American Motors is going to strengthen its position with model diversification. Hudson's Jet series, selling in the lower-price field, matches Nash's Rambler series that Nash has expanded in 1954 to 10 models by the introduction of three additional 2-door models and three new 4-door models.




Hudson's Jet, introduced in March, 1953, failed to get the favorable reception on the part of the individual (Continued on page 636)

FOR
# PROFIT
AND
# INCOME

**February**

Through the long history of the Dow averages, the market has fared less well in February than in any other month of the year, with industrials showing net February declines in 32 years, advances in 25; rails losing ground in this month in 34 years, gaining in 23. The apparent reasons are (1) a downward bias in bear-market years; and (2) February corrections of December-January upswings in bull-market or trading-swing years, such "year-end" upswings having occurred in a majority of instances. Regardless of the record, the market is, of course, a law unto itself in any given month. It can be argued that weakening of the technical position by the sizable January advance this year should make for more weakness than strength in February. But up to this writing recessions in the averages have remained minor and brief.

**Dividends**

Total 1953 dividend payments are estimated at $9.4 billion, a new record, comparing with $9.1 in 1952, $9.2 in 1951 and $9.1 in 1950. That degree of stability for four consecutive years — with earnings (estimated at $20 billion for 1953) varying between $22.7 billion and $18.6 billion is something new. It would not surprise us if 1954 is the fifth year with dividends between $9.1 billion and $9.4 billion. Total earnings will be lower, perhaps by 12% to 15% on present business projections, but cash positions will be generally more comfortable; and the pay-out of earnings should be appreciably above 1953's modest estimated 47%. In January 17 companies reduced or omitted dividends, against 20 a year ago; while 156 companies increased rates or voted extras, compared with 154 in January, 1952.

**Outboard**

Relatively inexpensive power boats, requiring only attachment of an outboard motor, are growing steadily in popularity. Tending to spur growth is development of outboards of 25 horsepower or more, powering family-size cabin cruisers costing considerably less than the lowest-priced automobile; motors with electric self-starters; and motors in which noise and vibration are substantially eliminated. The pioneer maker, holding about half of the total market is Outboard Marine & Manufacturing Co. The record of profit margins indicates efficient operations. Sales have doubled since 1947. They gained 42% in the fiscal year ended last September, compared with the prior year; and about 39% in the quarter ended December 31. Earnings were $4.24 a share, a new peak, last year, despite high EPT liability and heavy tax-spurred development and other expenses. Still under EPT, they rose to $1.85 a share in the December quarter, from 87 cents a year earlier. The potential for the current fiscal year, with three-quarters of it free of EPT, may be around $8 a share; and $10 to $12 for nearby later years is readily conceivable. The dividend was recently raised from a $1.60 to a $2 basis. A further boost this

**INCREASES SHOWN IN RECENT EARNINGS REPORTS**

| | | 1953 | 1952 |
|---|---|---|---|
| Idaho Power Co. | Year Dec. 31 | $3.35 | $2.75 |
| Libby-Owens-Ford Glass | Year Dec. 31 | 3.72 | 2.88 |
| Allied Chemical & Dye | Year Dec. 31 | 5.10 | 4.55 |
| U. S. Steel | Quar. Dec. 31 | 1.990 | 1.60 |
| Allied Mills | Quar. Dec. 31 | .84 | .48 |
| York Corp. | Dec. 31 Quar. | .31 | .04 |
| Consol. Edison of N. Y. | Year Dec. 31 | 2.94 | 2.63 |
| Republic Steel | Year Dec. 31 | 9.25 | 7.21 |
| Shamrock Oil & Gas | Year Dec. 31 | 3.83 | 3.31 |
| Consumers Power | Year Dec. 31 | 3.18 | 2.65 |

year is likely, although payments will remain conservative, relative to earnings, due to expansion needs. The company is lightly capitalized, with $7.15 million of long-term debt and 712,829 shares of stock, about 40% of which is management-owned. The Big-Board market for the stock is inactive and thin. Presently at 44, only some 5.5 times probable current-year earning power, yielding over 4.5% from a dividend which should be subject to wide longer-term liberalization, the stock appears undervalued.

**Stocks**

On the whole, stocks of institutional grade – mostly stable-dividend income issues and growth stocks – have continued to "lead the parade." But there are speculative and semi-speculative stirrings here and there. They reflect increased confidence stemming from the Administration's policies; and also the usual lift in confidence seen after a market rise has been maintained for some time—this one having run, with not much in the way of corrective reactions up to this writing, since the middle of last September. Among secondary or speculative stocks recently attaining new highs for 1953-1954 or longer have been Martin Parry, Shamrock Oil & Gas, American Radiator, Davison Chemical, Robert Gair, Liquid Carbonic, Glenn Martin, Reynolds Metals, ACF Brill, Carborundum, Munsingwear, Interchem, Manhattan Shirt and National Gypsum.

**Steels**

As a group, steel stocks made their highs of the 1949-1953 bull market early in 1951. Their subsequent maximum decline was about 21%. At the lowest 1953 levels, seen last September, most leading issues held above their 1952 lows. Having discounted lower steel output and earnings over so long a period so far in advance, the group has risen about 10% from its September low—against roughly 15% for the Dow industrial average—in the face of shrinkage in the industry's operating rate from around capacity to 74% of capacity at present. Unless we are in for more than the "moderate" business recession which the general market consensus is allowing for, the rate should not go much, if any, lower; nor should the full-year average rate differ greatly either way from the present one. Steel earnings will be materially lower this year than last; but, with important aid from EPT lapse in most cases, should be well above present dividends. Cash positions will be more comfortable than in some years, due to reduced capital-outlay needs and higher depreciation charges. While the earnings outlook is on the restraining side, the dividend prospect is on the supporting side – and the latter should be the more important of the two. Pointing up the bright side of the picture, Bethlehem Steel recently declared a $2 dividend, against the previous $1 quarterly, although it was indicated as an extra rather than a boost in rate. Leading steels mostly yield over 7% return on present dividends, and have been well tested in the market. For both reasons they now shape up as better holds than sales; and purchases on moderate reactions could work out well. Aside from Bethlehem, which ran up considerably on the dividend news and which may not be the only one to pay more in dividends this year than last, the better issues include United States Steel, Inland, National, Youngstown Sheet & Tube and Armco.

**"Insider" Holdings**

Some investors prefer stocks in which company officers have substantial to large holdings—thus putting management and outside stockholders "in the same boat" —and think there must be something the matter with a stock if officers hold little of it. This is not an open-and-shut proposition. Some stock-owning managements are able, some not. The same goes for professional management with light stock holdings. Either will usually make at least an adequately good showing in a thriving industry, a poor one in a depressed industry. If large "insider" stock holdings automatically indicated a good buy, profitable stock selection would be simple. It never has been.

**Preferred Stocks**

If Congress adopts the pending program of tax credits for dividend income, amounting to 5% in the first year, 10% in the second and 15% in the third and all later years, high-grade preferred stocks should have more appeal to many individual investors than bonds. The relative advantage in "take-home" income from preferred stocks would be considerable even in the lowest tax bracket, rising to large in the middle brackets. A few examples of good-grade preferreds are Aluminum Company $3.75, General Motors $5, Montgomery Ward $7, Union Pacific $2, Cleveland Electric $4.50 and Philadelphia Electric $4.40.

**Valuation**

At 77, Standard Oil (New Jersey) is priced at about 8.8 times 1953 earnings, at 1.47 times book value and yields over 5.8% on 1953 dividends. Against that, Continental Oil at 59 is priced at 13.6 times 1953 earnings, over 2.0 times book value, and yields 4.6% on 1953 dividends. These figures would suggest on the surface that Jersey is much the cheaper of the two stocks. Actually what they emphasize is the investment consensus that profits of Continental Oil are "politically" safe, those of Jersey less so, since Continental operates in the U. S. and Canada, Jersey through much of the world. Creole Petroleum (Colombia) around 5%; and mid-East interests over 10%. The foreign holdings may remain highly profitable, but the market must allow for the "ifs."

**DECREASES SHOWN IN RECENT EARNINGS REPORTS**

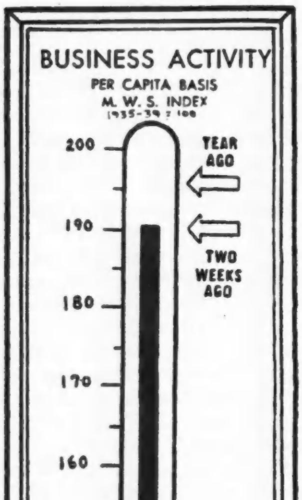
| | | 1953 | 1952 |
|---|---|---|---|
| Avco Mfg. Corp. | Year Nov. 30 | $ .34 | $1.20 |
| Cons. Gas, El. L. & P. Balt. | Quar. Dec. 31 | .32 | .49 |
| Lehigh Coal & Navigation | Year Dec. 31 | .21 | .91 |
| Carpenter Steel | Quar. Dec. 31 | 1.51 | 2.03 |
| Jones & Laughlin Steel | Quar. Dec. 31 | .89 | 2.21 |
| Youngstown Sheet & Tube | Quar. Dec. 31 | 2.34 | 3.54 |
| Case, J. I., Co. | Year Oct. 31 | .06 | 2.83 |
| Moore-McCormack Lines | Year Dec. 31 | 2.53 | 4.71 |
| Oliver Corp. | Year Oct. 31 | 1.18 | 2.71 |
| Woodall Industries | Quar. Nov. 30 | .21 | .50 |

## The Business Analyst

# *What's Ahead for Business?*

By E. K. A.

Rapid melting of the new order backlog, parallel with continued reduction in inventories is the predominant feature of the business landscape. At the end of 1953, unfilled orders on the books of manufacturers were estimated at $58.3 billion. At the end of the previous year, they were $75.3 billion and reached a peak since then of $76.1 billion in January 1953. Accordingly, the decline from the 1953 peak in manufacturing backlogs is approximately $17.8 billion. This is where they were almost three years ago, or in March 1951.




Despite the present low level, unfilled orders are still about twice what they were directly before the Korean war started. Although this is a somewhat comforting comporison, the speed of the decline in unfilled orders suggest a contracting base for manufacturing operations in the months immediately ahead. This view is supported by the decline in new orders received by manufacturers which, in the months of December, totalled $21.3 billion, about $3 billion less than received in December of 1952.

The peak of new orders received by manufacturing industries, seasonally adjusted, was in May 1953, reaching a figure of $25.8 billion. With new monthly orders now about $4.5 billion under the peak, it is clear that unless the trend is reversed in the very near future, the total volume of production which obviously depends considerably on incoming orders, will react more or less in proportion. The Federal Reserve Board index of production, on the new seasonally adjusted basis, stood at 127 for December and contrasted with a peak of 137 in July. However, it is probable that the December figure does not fully reflect the effect of both lower unfilled orders and new orders so that a further decline in production in the early months of 1954 is indicated.

The peak of manufacturers' sales-by-months was reached in July, duplicating April, when the figure stood at $26.3 billion and has ebbed steadily declining to $24.1 billion in December. January figures were probably even lower and seem to be steadily approaching the average for the first few months of 1952, or about $22.5 billion monthly. Assuming this level is reached in the final winter months, a decline of about 14% in manufacturers' sales from the peak of 1953 would have occurred. With new orders approximately 18% less than the 1953 monthly peak, it would seem that unless there is an immediate increase in incoming orders, manufacturing production would reach a point to more or less equalize the gap between the prospective level for sales and that for unfilled orders. In other words, it is possible that total manufacturing production in the next several months will decline some 4 points, or to 123 in the present Federal Reserve Board index, against a high of 137.

The as-yet moderate extent of inventory liquidation is indicated by the trend in the final three months of 1953. After having reached a peak at the end of September of $47.1 billion, they were reduced by $400 million at the end of the year. At present levels, they are about $2.5 billion higher than a year ago so that it can be said in a general way that inventories are still somewhat burdensome, especially in relation to the declining trend in all three factors of new orders, unfilled orders and inventories.

A factor which is just commencing to exert some influence is the appearance of price unsteadiness, though this is well scattered and, as yet, has not reached the proportions of a major trend. However, individual industries are growing more susceptible to this trend.

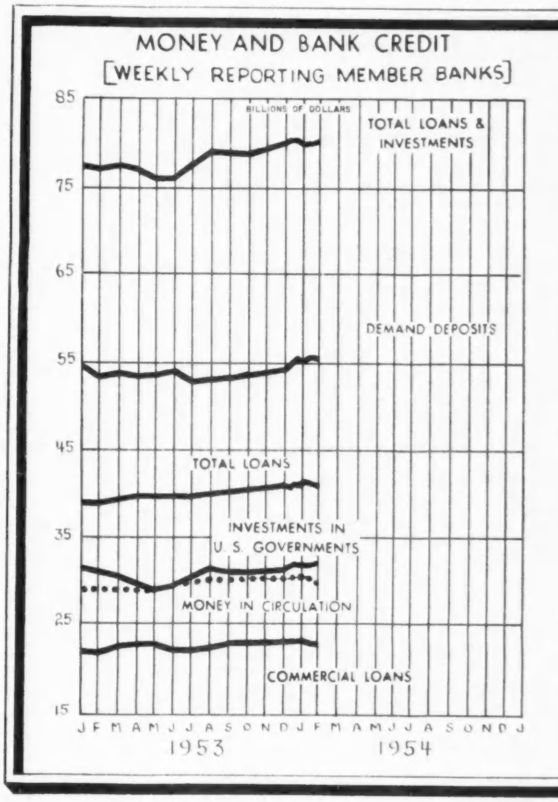
# The Business Analyst

# HIGHLIGHTS

**MONEY & CREDIT**—Action by the Treasury and the central banking authorities has dominated the financial news in recent weeks, with the Treasury's bold move to lengthen the maturity of the Federal debt and make it more manageable, a market feature. The agency's refinancing plan, biggest in history, affected $20.8 billion of Treasury obligations, of which $12.8 billion are currently maturing. Holders of the latter were given a choice of either one-year 1⅝% certificates or 7¾-year 2½% bonds. In addition, $8.0 billion of bonds due on June 15, or called for redemption on that date, were given the opportunity of exchanging for the new bond. The Treasury set a generous yield on the new bond and this plus a strong market encouraged acceptance of the issue, making the entire refunding a success. Preliminary figures indicate that subscriptions are in hand for over $11 billion of the medium-term obligation, while acceptances of the one-year certificate amount to $7.0 billion. As for the $2.8 billion of obligations that refused this opportunity to exchange, a good share of these still have four months to run, giving the Treasury an opportunity to make another exchange offer.

Hard on the heels of the Treasury's move to consolidate the debt, came announcement by several Federal Reserve banks, that the rediscount rate at which banks may borrow from them was being cut to 1¾% from the previous 2% which had been in effect since January, 1953. The step was widely interpreted as another move in the direction of encouraging business via easier money and brought a quick cut in rates for commercial paper and bankers' acceptances. It is expected that there will eventually also be a reduction in the 3¼% return which banks are getting at present from first-class borrowers.

The market for high-grade obligations took the news of both the huge refunding and the cut in the discount rate with equanimity. The Treasury's medium and long-term maturities sold off a bit after announcement of the Treasury's move, which is adding substantially to the supply of medium-term bonds, but recovered the loss in the wake of the cut in the discount rate. Fluctuations of the thirty-year 3¼s were pretty representative, and this issue, for instance, closed at 106⅞ on January 26, fell to 106½ on January 29, after announcement of the refinancing move and were back to 107 on February 9. High-grade corporate obligations did even better with prices in an uptrend during the entire period. As a result, yield on a representative average of best-grade corporates was down to 2.95% on February 8, thus penetrating last year's low of 2.98%. Yields on tax-exempt obligations have also been declining although, on average, still about six basis points above the 1953 low.




**TRADE**—Retailers are meeting some sales resistance of late and sales in the week ending Wednesday, February 3, were slightly under the previous week, although about 3% ahead of a year ago, according to estimates by Dun & Bradstreet. New England and the Eastern states did better for a change, topping last year by 4%. Apparel volume remained above the corresponding 1953 period and foods moved well, although resistance to high coffee prices was noted. Spending for durable goods was about even with last year while there was some pick-up in demand for used cars, with buyers attracted by the big drop in prices from a year ago.

**INDUSTRY**—The Federal Reserve Board estimates that there was a decline in industrial output in January, albeit a smaller one than in December. The final month of 1953 saw the Board's production index at 127% of the 1947-1949 average, which is perceptibly under output at the end of 1952 when the index stood at 133.

The National Association of Purchasing Agents also reports a small decline in industrial output in January and finds that manufacturers are continuing to whittle down inventories while purchases are being restricted to a hand-to-mouth basis.

**COMMODITIES**—The Bureau of Labor Statistics' comprehensive index of commodity prices declined 0.3% in the week ending February 2, to stand at 110.6% of the 1947-1949

*(Please turn to the following page)*

# Essential Statistics

| | Date | Latest Wk. or Month | Previous Wk. or Month | Year Ago | Pre-Pearl Harbor* |
|---|---|---|---|---|---|
| **MILITARY EXPENDITURES—$b (e)** | Jan. | 3.4 | 4.1 | 4.0 | 1.6 |
| Cumulative from mid-1940 | Jan. | 537.2 | 533.8 | 484.7 | 13.8 |
| **FEDERAL GROSS DEBT—$b** | Feb. 3 | 274.8 | 274.9 | 267.4 | 55.2 |
| **MONEY SUPPLY—$b** | | | | | |
| Demand Deposits—94 Centers | Jan. 27 | 56.1 | 56.1 | 54.8 | 26.1 |
| Currency in Circulation | Feb. 3 | 29.9 | 29.9 | 29.7 | 10.7 |
| **BANK DEBTS—(rb3)**** | | | | | |
| New York City—$b | Dec. | 54.0 | 54.3 | 52.1 | 16.1 |
| 344 Other Centers—$b | Dec. | 91.5 | 91.7 | 90.4 | 29.0 |
| **PERSONAL INCOME—$b (cd2)** | Dec. | 285 | 286 | 281 | 102 |
| Salaries and Wages | Dec. | 193 | 195 | 189 | 66 |
| Proprietors' Incomes | Dec. | 51 | 50 | 52 | 23 |
| Interest and Dividends | Dec. | 23 | 23 | 22 | 10 |
| Transfer Payments | Dec. | 14 | 14 | 14 | 3 |
| **(INCOME FROM AGRICULTURE)** | Dec. | 18 | 17 | 19 | 10 |
| **POPULATION—m (e) (cb)** | Dec. | 160.9 | 160.7 | 158.2 | 133.8 |
| Non-Institutional, Age 14 & Over | Dec. | 112.1 | 112.0 | 110.9 | 101.8 |
| Civilian Labor Force | Dec. | 62.6 | 63.4 | 63.3 | 55.6 |
| unemployed | Dec. | 1.9 | 1.4 | 1.4 | 3.8 |
| Employed | Dec. | 60.8 | 61.9 | 61.9 | 51.8 |
| in Agriculture | Dec. | 5.4 | 6.7 | 6.2 | 8.0 |
| Non-Farm | Dec. | 55.3 | 55.3 | 55.8 | 43.2 |
| At Work | Dec. | 59.1 | 60.2 | 59.8 | 43.8 |
| Weekly Hours | Dec. | 41.6 | 41.2 | 42.3 | 42.0 |
| Man-Hours Weekly—b | Dec. | 2.46 | 2.48 | 2.53 | 1.82 |
| **EMPLOYEES, Non-Farm—m (1b)** | Dec. | 49.6 | 49.3 | 50.1 | 37.5 |
| Government | Dec. | 7.0 | 6.7 | 7.1 | 4.8 |
| Factory | Dec. | 13.1 | 13.3 | 13.7 | 11.7 |
| Weekly Hours | Dec. | 40.1 | 40.0 | 41.7 | 40.4 |
| Hourly Wage (cents) | Dec. | 179.0 | 179.0 | 173.0 | 77.3 |
| Weekly Wage ($) | Dec. | 71.78 | 71.60 | 72.16 | 21.33 |
| **PRICES—Wholesale (lb2)** | Feb. 2 | 110.6 | 110.9 | 109.6 | 66.9 |
| Retail (cd) | Nov. | 208.8 | 210.0 | 210.4 | 116.2 |
| **COST OF LIVING (lb2)** | Dec. | 114.9 | 115.0 | 114.1 | 65.9 |
| Food | Dec. | 112.3 | 112.0 | 113.8 | 64.9 |
| Clothing | Dec. | 105.3 | 105.5 | 105.1 | 59.5 |
| Rent | Dec. | 127.6 | 127.3 | 120.7 | 89.7 |
| **RETAIL TRADE—$b**** | | | | | |
| Retail Store Sales (cd) | Nov. | 14.2 | 14.0 | 14.0 | 4.7 |
| Durable Goods | Nov. | 5.0 | 5.0 | 4.8 | 1.1 |
| Non-Durable Goods | Nov. | 9.2 | 9.0 | 9.2 | 3.6 |
| Dep't Store Sales (mrb) | Nov. | 0.85 | 0.83 | 0.83 | 0.34 |
| Consumer Credit, End Mo. (rb) | Nov. | 28.3 | 28.2 | 24.6 | 9.0 |
| **MANUFACTURERS'** | | | | | |
| New Orders—$b (cd) Total** | Dec. | 21.9 | 21.6 | 24.9 | 14.6 |
| Durable Goods | Dec. | 9.5 | 9.6 | 12.7 | 7.1 |
| Non-Durable Goods | Dec. | 12.4 | 12.0 | 12.2 | 7.5 |
| Shipments—$b (cd)—Total** | Dec. | 24.1 | 24.3 | 24.7 | 8.3 |
| Durable Goods | Dec. | 11.6 | 11.9 | 12.5 | 4.1 |
| Non-Durable Goods | Dec. | 12.5 | 12.4 | 12.2 | 4.2 |
| **BUSINESS INVENTORIES, End. Mo.**** | | | | | |
| Total—$b (cd) | Nov. | 78.5 | 79.0 | 74.7 | 28.6 |
| Manufacturers' | Nov. | 46.1 | 46.3 | 43.6 | 16.4 |
| Wholesalers' | Nov. | 10.6 | 10.7 | 10.2 | 4.1 |
| Retailers' | Nov. | 21.8 | 22.0 | 20.9 | 8.1 |
| Dept. Store Stocks (mrb) | Nov. | 2.5 | 2.5 | 2.4 | 1.1 |
| **BUSINESS ACTIVITY—1—pc** | Jan. 30 | 191.3 | 192.2 | 196.6 | 141.8 |
| (M. W. S.)—1—np | Jan. 30 | 236.7 | 237.9 | 237.5 | 146.5 |

## PRESENT POSITION AND OUTLOOK

*(Continued from page 629)*

average. At this level it was still almost 1% ahead of a year-ago. In the latest week, farm product prices were off 1.1%, largely the result of price cuts in livestock, eggs and most grains which more than counterbalanced increases for coffee, and raw cotton. The index of processed food prices lost 0.4% in the week while all commodities other than farm products and foods were unchanged from the week before but 1.4% ahead of a year oga.

* * *

**EXPENDITURES FOR NEW CONSTRUCTION** continued high in January with outlays at $2,425 million, or 2.7% above a year ago. January construction was down 9% from the previous month, but this was mostly the result of seasonal factors operative at this time. Construction by private interests came to $1,713 million in January, a 10% drop from December, but 5.3% ahead of January, 1953. Industrial building had a contra-seasonal advance last month but was still 10.4% under a year ago. Best year-to-year gain was made by commercial building, which at $164 million was 51.9% ahead of a year ago. Public utility construction outlays were 11.6% above January, 1953 while residential building showed a 1.1% gain. Spending for public construction in January amounted to $712 million, which was about 5.4% under December and 3% below the initial 1953 month. The only types of public construction to beat year-ago figures were schools, highways, and sewer and water works.

* * *

**CASH DIVIDEND PAYMENTS** in 1953 came to $8,546 million, a 2.5% increase over 1952 disbursements, according to compilations by the Commerce Department. Companies engaged in manufacturing increased their dividend payments last year by 1.5% with higher payments in oil refining, electric machinery, transportation equipment and chemicals outweighing declines in nonferrous metals, textiles and leather. Other manufacturing groups had only minor changes. In non-manufacturing, the railroad, public utility and finance groups made larger payments, while grade and mining groups suffered declines. Railroad dividends rose 9% last year and electric light and power disbursements were up 10%.

* * *

# and Trends

| | Date | Latest Wk. or Month | Previous Wk. or Month | Year Ago | Pre-Pearl Harbor* |
|---|---|---|---|---|---|
| **INDUSTRIAL PROD.—Ia np (rb)** | Dec. | 127 | 129 | 133 | 93 |
| Mining | Dec. | 111 | 111 | 117 | 87 |
| Durable Goods Mfr. | Dec. | 143 | 146 | 152 | 99 |
| Non-Durable Goods Mfr. | Dec. | 114 | 116 | 118 | 89 |
| **CARLOADINGS—t—Total** | Jan. 30 | 628 | 617 | 698 | 933 |
| Misc. Freight | Jan. 30 | 330 | 320 | 374 | 379 |
| Mdse. L. C. L. | Jan. 30 | 63 | 60 | 69 | 1,566 |
| Grain | Jan. 30 | 45 | 43 | 46 | 43 |
| **ELEC. POWER Output (Kw.H.) m** | Jan. 30 | 8,855 | 8,976 | 8,151 | 3,266 |
| **SOFT COAL, Prod. (st) m** | Jan. 30 | 8.4 | 8.2 | 8.9 | 10.8 |
| Cumulative from Jan. 1 | Jan. 30 | 33.4 | 25.0 | 39.3 | 44.6 |
| Stocks, End Mo. | Dec. | 80.6 | 82.4 | 76.7 | 61.8 |
| **PETROLEUM—(bbls.) m** | | | | | |
| Crude Output, Daily | Jan. 30 | 6.3 | 6.3 | 6.5 | 4.1 |
| Gasoline Stocks | Jan. 30 | 170 | 168 | 149 | 86 |
| Fuel Oil Stocks | Jan. 30 | 46 | 47 | 46 | 94 |
| Heating Oil Stocks | Jan. 30 | 84 | 91 | 82 | 55 |
| **LUMBER, Prod.—(bd. ft.) m** | Jan. 30 | 197 | 210 | 248 | 632 |
| Stocks, End Mo. (bd. ft.) b | Dec. | 9.0 | 8.8 | 8.3 | 7.9 |
| **STEEL INGOT PROD. (st) m** | Dec. | 7.9 | 8.7 | 9.7 | 7.0 |
| Cumulative from Jan. 1 | Dec. | 111.6 | 103.7 | 93.2 | 74.7 |
| **ENGINEERING CONSTRUCTION AWARDS—$m (en)** | Feb. 4 | 194 | 171 | 600 | 94 |
| Cumulative from Jan. 1 | Feb. 4 | 961 | 766 | 1,887 | 5,692 |
| **MISCELLANEOUS** | | | | | |
| Paperboard, New Orders (st)t | Jan. 30 | 232 | 199 | 235 | 165 |
| Cigarettes, Domestic Sales—b | Nov. | 30 | 35 | 30 | 17 |
| Do., Cigars—m | Nov. | 533 | 589 | 498 | 543 |
| Do., Manufactured Tobacco (lbs.)m | Nov. | 15 | 19 | 15 | 28 |

## PRESENT POSITION AND OUTLOOK

Manufacturers of **PASSENGER CAR TIRES** hit a new production record last year, turning out 881,454,605 tires, and exceeding the previous high set in 1950 by about 3 million, the Rubber Maintenance Association has reported. Tire shipments last year amounted to 79,712,527 which was under the record of 84,422,966 tires shipped in 1950 but 9.4 million ahead of 1952 shipments. Output in December of last year held steady at 5,405,748 units while shipments came to 4,678,671, a sizeable increase from the 4,134,334 tires shipped the previous month.

* * *

**EXPORTS** from the United States were valued at $1,241 million in November, a slight dip from October exports but about 4% ahead of the corresponding 1952 month, according to Census Bureau data. The export figures include military shipments under the Mutual Security Program amounting to $216 million in November, $234 million in October and $195 million in November, 1952. There were declines during November of last year in exports of machinery and vehicles and in nonmetallic minerals. **IMPORTS** into this country for the same month rose to $848 million from $812 million the previous month and $805 million a year ago.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted index (1935-9—100). Ia—Seasonally adj. index (1947-9—100). lb—Labor Bureau. lb2—Labor Bureau (1947-9—100). lb3—Labor Bureau (1935-9—100). lt—Long tons. m—Millions. mpt—At mills, publishers and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb3—Federal Reserve Bank of N. Y.—1941 data is for 274 centers. st—Short tons. t—Thousands. *—1941; November, or week ended December 6. **—Seasonally adjusted.

## THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

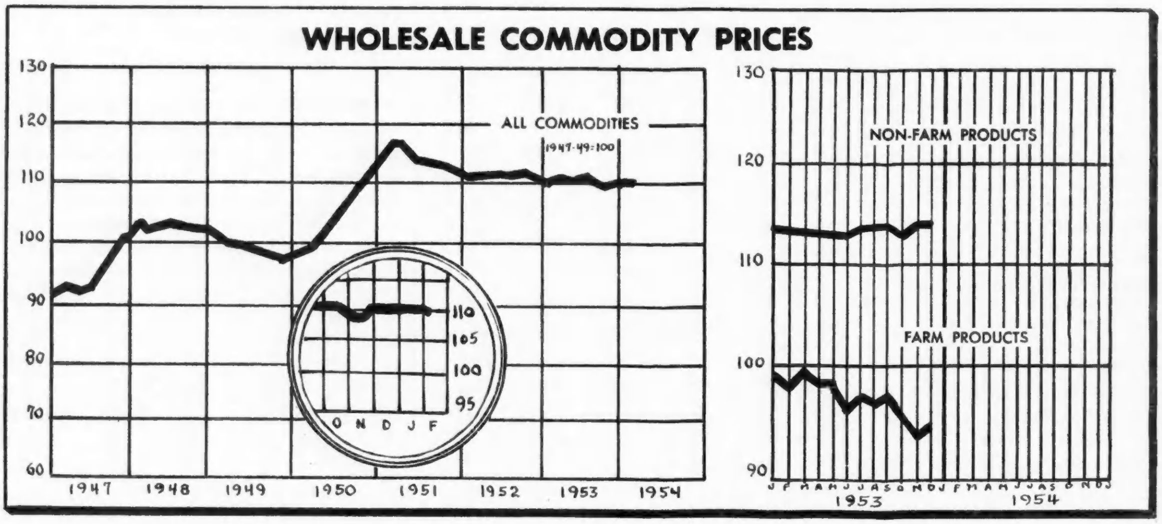
| No. of Issues (1925 Cl.—100) | 1953-'54 Range High | Low | 1954 Jan. 29 | 1954 Feb. 5 |
|---|---|---|---|---|
| 300 COMBINED AVERAGE | 215.5 | 177.2 | 201.4 | 203.3 |
| 4 Agricultural Implements | 263.3 | 179.0 | 209.4 | 211.2 |
| 10 Aircraft ('27 Cl.—100) | 445.3 | 330.3 | 441.2 | 445.3A |
| 7 Airlines ('27 Cl.—100) | 693.9 | 492.6 | 556.6 | 561.6 |
| 7 Amusements | 95.5 | 76.4 | 88.5 | 87.6 |
| 10 Automobile Accessories | 289.4 | 213.8 | 250.6 | 245.9 |
| 10 Automobiles | 49.4 | 39.0 | 40.4 | 40.8 |
| 3 Baking ('26 Cl.—100) | 28.0 | 23.0 | 23.9 | 24.2 |
| 3 Business Machines | 404.5 | 311.4 | 379.8 | 404.5A |
| 2 Bus Lines ('26 Cl.—100) | 240.8 | 170.2 | 233.8 | 236.1 |
| 6 Chemicals | 396.9 | 337.9 | 376.7 | 384.1 |
| 3 Coal Mining | 15.4 | 9.0 | 10.4 | 10.4 |
| 4 Communications | 69.3 | 58.6 | 64.5 | 65.7 |
| 9 Construction | 72.3 | 57.9 | 69.6 | 70.9 |
| 7 Containers | 519.9 | 456.9 | 515.0 | 519.9A |
| 9 Copper & Brass | 175.4 | 125.3 | 144.7 | 146.1 |
| 2 Dairy Products | 105.1 | 82.3 | 104.1 | 103.1 |
| 5 Department Stores | 63.2 | 54.6 | 59.0 | 59.0 |
| 5 Drug & Toilet Articles | 246.9 | 203.8 | 246.9 | 244.5 |
| 2 Finance Companies | 430.7 | 341.8 | 422.7 | 430.7A |
| 2 Food Brands | 200.4 | 185.0 | 200.3 | 200.3 |
| 2 Food Stores | 140.9 | 113.0 | 131.5 | 132.9 |
| 3 Furnishings | 79.2 | 59.6 | 68.6 | 68.0 |
| 4 Gold Mining | 760.0 | 502.3 | 557.6 | 547.5 |

| (Nov. 14, 1936, Cl.—100) | High | Low | 1954 Jan. 29 | 1954 Feb. 5 |
|---|---|---|---|---|
| 100 HIGH PRICED STOCKS | 133.5 | 114.4 | 130.0 | 131.5 |
| 100 LOW PRICED STOCKS | 260.5 | 203.7 | 234.3 | 236.5 |
| 4 Investment Trusts | 112.7 | 93.1 | 104.3 | 105.3 |
| 3 Liquor ('27 Cl.—100) | 967.8 | 811.1 | 900.1 | 908.6 |
| 11 Machinery | 240.6 | 181.0 | 218.2 | 220.2 |
| 3 Mail Order | 128.6 | 101.0 | 116.6 | 118.8 |
| 3 Meat Packing | 101.7 | 78.7 | 92.6 | 91.7 |
| 10 Metals, Miscellaneous | 284.5 | 198.4 | 221.1 | 227.1 |
| 4 Paper | 498.3 | 394.9 | 498.3 | 498.3 |
| 24 Petroleum | 463.4 | 376.5 | 444.4 | 456.5 |
| 22 Public Utilities | 202.2 | 173.8 | 200.2 | 202.2A |
| 8 Radio & TV ('27 Cl.—100) | 36.9 | 27.6 | 30.4 | 30.1 |
| 8 Railroad Equipment | 64.1 | 49.1 | 54.8 | 55.8 |
| 20 Railroads | 53.2 | 41.8 | 45.6 | 46.0 |
| 3 Realty | 54.6 | 42.3 | 54.1 | 54.1 |
| 3 Shipbuilding | 330.8 | 228.7 | 310.3 | 330.8A |
| 3 Soft Drinks | 414.3 | 339.0 | 406.7 | 414.3A |
| 11 Steel & Iron | 151.4 | 122.8 | 142.9 | 142.9 |
| 3 Sugar | 59.8 | 45.9 | 50.5 | 50.0 |
| 2 Sulphur | 625.9 | 525.5 | 601.9 | 618.0 |
| 5 Textiles | 162.2 | 101.3 | 108.4 | 108.4 |
| 3 Tires & Rubber | 94.1 | 70.4 | 93.2 | 94.1A |
| 5 Tobacco | 105.2 | 82.0 | 85.3 | 84.5 |
| 2 Variety Stores | 319.5 | 288.8 | 297.5 | 294.6 |
| 16 Unclassified ('49 Cl.—100) | 125.7 | 97.0 | 109.3 | 111.4 |

A—New High for 1953-'54.

# Trend of Commodities

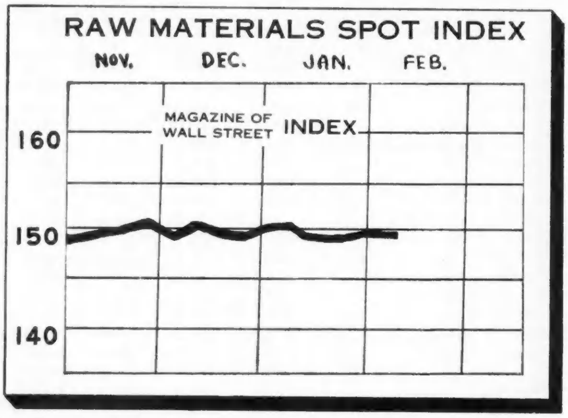
Divergent trends still continue to characterize future markets, with strength in one area counteracted by weakness elsewhere. The Dow-Jones Commodity Futures Index closed at 170.57 on February 8 where it showed a gain of 0.75 points over its level of two weeks earlier. July wheat was strong during the two weeks ending February 8 and achieved a net gain of 3½ cents. Lack of moisture and other poor weather conditions here and abroad have encouraged buyers. Exports of wheat and flour in the last half of 1953 were at the lowest level in nine years but it is hoped that the International Wheat Agreement will result in increased exports in coming months. Corn futures have shown weakness and the May option lost ¾ cents in the period under review. The big obstacle in corn is the amount of old grain owned by the Commodity Credit Corporation which is in danger of spoilage. 185 million bushels of corn five to six years old have been offered for sale by the Department of Agriculture. Although this corn is priced above the current market, the threat of serious deterioration with the advent of warmer weather may force sales at lower prices. Cotton has advanced a little recently and the July option gained 17 points in the fortnight ending February 8 to close at 34.05 cents. Some observers are predicting that as much as 7.5 million bales of cotton will go into the loan and if consumption approximates 11 million bushels, this would leave a free supply of only 2 million bales on July 31, the season's end. Consumers' purchases of cotton products are continuing at a high rate and this has undoubtedly reduced mill surpluses. However, industrial fabrics containing cotton are still moving slowly.




**U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES**
**Spot Market Prices—1947-1949, equals 100**

| | Date Feb. 5 | 2 Wks. Ago | 3 Mos. Ago | 1 Yr. Ago | Dec. 6 1941 |
|---|---|---|---|---|---|
| 22 Commodity Index | 88.4 | 87.5 | 86.7 | 87.8 | 53.0 |
| 9 Foodstuffs | 97.5 | 96.3 | 92.7 | 85.0 | 46.1 |
| 3 Raw Industrial | 81.5 | 81.8 | 82.6 | 89.7 | 58.3 |

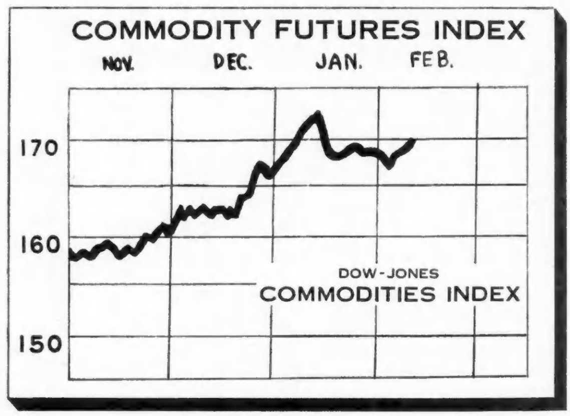
| | Date Feb. 5 | 2 Wks. Ago | 3 Mos. Ago | 1 Yr. Ago | Dec. 6 1941 |
|---|---|---|---|---|---|
| 5 Metals | 82.7 | 83.1 | 89.4 | 104.1 | 54.6 |
| 4 Textiles | 88.2 | 88.2 | 87.2 | 90.6 | 56.3 |
| 4 Fats & Oils | 73.8 | 70.8 | 67.3 | 55.3 | 55.6 |




**14 Raw Materials, 1923-25 Average equals 100**

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

| | 1953-'54 | 1952 | 1951 | 1945 | 1941 | 1939 | 1938 | 1937 |
|---|---|---|---|---|---|---|---|---|
| High | 162.2 | 181.2 | 215.4 | 111.7 | 88.9 | 67.9 | 57.7 | 86.6 |
| Low | 147.9 | 160.0 | 176.4 | 98.6 | 58.2 | 48.9 | 47.3 | 54.6 |




**Average 1924-26 equals 100**

| | 1953-'54 | 1952 | 1951 | 1945 | 1941 | 1939 | 1938 | 1937 |
|---|---|---|---|---|---|---|---|---|
| High | 170.1 | 192.5 | 214.5 | 95.8 | 74.3 | 78.3 | 65.8 | 93.8 |
| Low | 153.8 | 168.3 | 174.8 | 83.6 | 58.7 | 61.6 | 57.5 | 64.7 |

# Answers to Inquiries

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### Bendix Aviation Corporation

*"Please report sales volume of Bendix Aviation Corporation for the past fiscal year with a breakdown of the sales in the important categories of the company and also backlog of orders and working capital position."*

*F. C., Houston, Texas*

Net sales, royalties and other operating income of Bendix Aviation Corporation for the fiscal year ended September 30, 1953 were $638,544,637, compared with $508,701,892 for the fiscal year 1952. The increase of more than $129 million, or 25%, was distributed proportionately among automotive, aircraft and sundry products of the company.

Earnings for the 1953 fiscal year also rose to $17,352,710, or $8.20 a common share, from $15,295,159, or $7.22 a share, in fiscal 1952. The rise in earnings was smaller in relation to the rise in sales for two principal reasons. The first was that about 76% of sales were either direct government contracts or sales to other companies having government contracts, and those were subject to a number of profit-controlling factors such as price re-determination and renegotiation. The second was continued high federal income and excess profit taxes which amounted to about 70% of taxable income.

The corporation's backlog of unfilled orders at September 30, 1953 totalled $686 million, compared with $720 million a year before.

Net working capital remained about stationary, at $79,906,093 on September 30, 1953, compared with $79,161,764 a year earlier. Because of favorable settlement of several legal disputes during the year, Bendix found it possible to transfer $6 million from a contingency reserve to earned surplus during the year. With retained earnings, this increased stockholders' equity by $15,412,261, to $128,241,940, or $60.56 a share.

By major categories, Bendix sales during fiscal 1953 were 66% for aircraft, 16% for automotive, and 18% in sundry products. The $415 million production for the aviation industry included many types of ground radar devices as well as components, systems and equipment for airplanes. The corporation's total production of aviation products in 1929 was $7,500,000, and in fiscal 1939 $18,400,000. A number of Bendix pioneered devices were integrated into overall communication and navigation systems. Distant measurement equipment, ground and air radar installations, and new navigation devices would reduce weather hazards for civilian airlines and shorten delays in airport traffic.

Bendix volume of $99 million in automotive products represented an all-time peak. Demand for standard items such as brakes, brake linings, starter drives and carburetors rose with the increase in all automobile production last year. In addition, public acceptance of hydraulic steering and power braking equipment was marked.

In fiscal 1953 Bendix had a volume of $121 million in items other than those for the aircraft and automotive industries. This category includes both consumers' and producers' goods.

Dividends in 1953 were $3.00 in cash plus 7% in stock.

### Union Carbide & Carbon Corporation

*"Please furnish data as to recent sales and earnings of Union Carbide & Carbon Corporation and also new production developments."*

*C. D., Boston, Mass.*

Sales of Union Carbide & Carbon Corporation in 1953 were in excess of $1 billion for the first time in the corporation's history. They amounted to $1,025,833,041, an increase of 7% over sales in 1952, which were $956,931,021.

Net income after taxes in 1953 was $102,783,442, or $3.55 a share on 28,952,794 shares of capital stock outstanding. This compared with net income in 1952 of $98,320,699 or $3.41 a share on 28,806,344 shares outstanding at the close of that year. The rise in net income in 1953 was attributed primarily to the increase in sales, although it was limited by higher charges for depreciation and amortization on the corporation's expanded production facilities. Earnings were 4.5% higher in 1953 than 1952. Net earnings for 1953 were the third highest in company's history. The peak of $124,111,851 was made in 1950, and the second best, $103,889,711 in 1951.

Expansion of company's Bakelite Division has placed new polyethylene plant in Texas City, on full scale production rated at more than 60 million pounds per year, an increase of 45%. Other plants now being built are at Seadrift, Texas and Torrence, California. The former is due to begin operation in mid-1954 and the latter is expected to operate in 1955.

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## Nash-Kelvinator—Hudson Merger

*Continued from page* 625)

automobile buyer that had been expected. Although Hudson has not disclosed tooling cost for Jet production, it is believed that it spent something like $12 million and possibly more, tooling up for this model. It is understood in automotive circles that because of the Jet's failure to capture the fancy of the buying public, Nash-Kelvinator insisted that one of the considerations in relation to the proposed merger was that Hudson eliminate this model from its assets. That this was done is indicated by Hudson stating it was found necessary to revise its tooling investment, an action reflected in 1953 third quarter deficit of $8.3 million, wiping out previous six months' net, and culminating in a deficit of $6.4 million for the 1953 first nine months.

### *Highlights of Merger*

| | Hudson | Nash-Kelvinator |
|---|---|---|
| Car output (1953) | 76,331 | 166,918[1] |
| Appliance output | ......... | 638,204[1] |
| Sales (millions | n.a. | $478.7[1] |
| Combined assets (millions) American Mtrs. | | $355.0[2] |
| Working capital (millions) American Mtrs. | | $100.0[2] |

*Merger terms:* Two shares American Motors for 3 shares of Hudson Motor Car; one share of Nash-Kelvinator for one share of American Motors.

Stock outstanding upon consummation of merger: 5.7 million shares of $5 par value.

[1]—Fiscal year ended Sept. 30, 1953.

[2]—Unofficial estimate.

n.a.—Not available at press time.

Hudson has yet to release a report of operations for the full year to Dec. 31, last. It is within reason to estimate that final quarter car sales continued to shrink from earlier three months' periods of the year. Nash car sales also reflect the shrinkage in demand. Although net sales for the Dec. 1953 quarter, the first in the company's new fiscal year, of $108.6 million make a favorable comparison with $111.3 million for the 1952-53 first quarter, net income of roughly $954,000, or 22 cents a share is in contrast with 1952-53 first quarter net of $5.5 million which figures out to $1.27 a share. Both car and appliance sales were lower in the more recent quarter. Contributing factors were some price reductions and a shut-down for model changeover. Increased military aircraft engine sales held total dollar volume to a comparatively high level, but profit margins on Government business, being notoriously slim, could not produce share earnings comparable with those of a year ago.

In its 1953 fiscal year, net sales of Nash were at an alltime peak of $478.7 million. The Nash Division produced 166,918 cars, and the Kelvinator Division's output rose to 638,204 electric appliances, to produce net earnings, together with that contributed by subsidiary companies, of better than $14 million. This was equal to $3.25 a share, as compared with $2.90 a share reported for the 1952 fiscal year.

Nash management, recognizing the important competitive factors in both the automobile and appliance fields, has broadened and improved its lines of Nash and Kelvinator products. Kelvinator has extended its position by acquiring one of the oldest manufacturers of laundry equipment, thus adding to output automatic washing machines, clothes dryers and ironers. It also absorbed the range business of the Kalamazoo Stove & Furnace Co., to expand its line of electric ranges. According to current plans, Nash will introduce within a few weeks an entirely new car, small and light in weight, capable of traveling up to 40 miles at normal highway speeds on a gallon of gas. The company considers this car to be the American concept of small car design that will satisfy the demand for an automobile that will provide maximum operating economy without yielding the essentials of driving comfort.

All of these developments have been moves by Nash-Kelvinator management to strengthen its competitive position of its two major divisions. In the eight years since the end of World War II, it has invested more than $72 million in expansion and modernization of its automotive and appliance plants and manufacturing equipment. Absorption of Hudson Motor Car into the proposed new American Motors Corp., appears to be the next logical step. Such a development will give Hudson, which aside from its sales subsidiaries, has only one active subsidiary that operates a sheet metal finishing mill, the advantages of Nash-Kelvinator's grey iron foundry, its forge shop and its stamping plant as well as Nash own production of axles, differentials, torque tubes, and the body plants producing all of Nash stampings and interior trim requirements.

The consolidation would also bring together approximately 2,000 Hudson and 1,600 Nash dealers, forming a distribution system of somewhere around 3,600 retail outlets. Among automobile interests, the conjecture is that consolidating Hudson and Nash-Kelvinator into American Motors is but the initial movement in the building of the new company into the "big 4th" of the automobile industry. For both Hudson and Nash-Kelvinator stockholders the proposed venture has attraction, especially on a long-range basis, the time element being of importance for carrying out the broader plans which American Motors, when it is in operation, is expected to disclose.

Under the terms of the proposed merger, three shares of Hudson will be exchanged for two of the new company, and Nash-Kelvinator stock will be converted share for share. Consummation of the plan will result, according to present understanding, in about 5.7 million shares out of an authorized issue of 10 million shares of American Motors, being issued and outstanding.

### *Hudson Motor Car*

| | Earnings Per Share | Dividends Per Share | Price Range 1946 to 1953 |
|---|---|---|---|
| 1946 | $ 1.51 | $ .40 | 34⅛-14½ |
| 1947 | 3.17 | .40 | 21½-12½ |
| 1948 | 7.28 | .70 | 22¾-12⅝ |
| 1949 | 5.30 | 1.70[1] | 14½- 9 |
| 1950 | 6.30 | 2.50 | 17¾-13 |
| 1951 | (d) .59 | 1.00 | 20⅜-12⅛ |
| 1952 | 4.15 | .75[1] | 17¼-12½ |
| 1953 | n.a. | .75 | 17 - 9⅛ |

n.a.—Not available.

(d)—Deficit.

[1]—Plus stock.

### *Nash-Kelvinator Corp.*

| | Earnings Per Share | Dividends Per Share | Price Range 1946 to 1953 |
|---|---|---|---|
| 1946 | $ .59[1] | $ .50 | 25⅜-13 |
| 1947 | 4.17 | 1.10 | 19⅝-14 |
| 1948 | 4.64 | 1.40 | 21⅝-14⅜ |
| 1949 | 6.04 | 2.15 | 17¾-10½ |
| 1950 | 6.64 | 2.85 | 22 -16 |
| 1951 | 3.74 | 2.00 | 22⅞-17⅝ |
| 1952 | 2.90 | 2.00 | 22⅝-17¾ |
| 1953 | 3.25 | 2.00 | 25¾-16 |

[1]—Fiscal year ending September 30.

## Year-end Corporate Statements and First Quarter Trends

(*Continued from page* 616)

for a company which supplies 80% of its flour requirements. While net profit margins for the year averaged out at slightly under 1952, it is significant that on a quarterly basis earnings have increased steadily. This is shown in the table. For the full year, earnings were $2.61 a share, compared with $2.56 a share in 1952. While termination of the excess profits tax plays little or no part in future earnings prospects, it is likely that demand for crackers and biscuits will remain high, notwithstanding the downturn in general business. Prospects for the first half of the year for this manufacturer, consequently, are that earnings will be maintained.

*Deere & Co.* The deterioration common to the farm implement industry is illustrated by the decline in Deere & Co.'s earnings for the fiscal year ended Oct. 31. Changed conditions are not so much reflected in total sales, which, as a matter of fact, held comparatively well. They amounted to $378.4 million for 1953 against $383.1 million the previous year. On a break-down, however, the figures are somewhat more revealing, showing farm equipment sales alone down from $369.2 million to $359.8 million, this drop being offset by an increase in sales of military products of from $13.8 million to $18.6 million. Looking at farm equipment sales alone, it is evident that the less than 3% decline could not be considered catastrophic in view of the general upset which has been taking place in the agricultural regions. On the other hand, higher manufacturing costs, especially labor have had an effect in reducing the company's operating profits. Also, there was an increase of about $1.5 million for depreciation charges. Another factor was lower selling prices for some products. The interplay of these various factors reflected in the considerable drop which took place in the net profit margin, taking the 1953 figure down to 6.5% against 9.2% the previous year. Net profits were $3.37 a share compared with $4.93 a share in fiscal 1952. Of particular interest was the steady decline in net profits per share during the final two quarters of the year. Recovery in earnings does not seem indicated over the near term. The last dividend declaration was for a payment of 25 cents a share due April 1 against a 50 cent dividend paid Jan. 2. This accords with the flexible dividend policy of the company.

## Trading With the Ruble Area

(*Continued from page* 613)

almost explosive. On one hand, with economic aid coming to an end, Washington may find it increasingly difficult to maintain a united front in the West. On the other hand, with postwar reconstruction more or less finished, rearmament activities leveling off, and competition for markets in the West stiffening, East-West trade may seem to offer temporary relief.

In deciding what should be done about East-West trade, the democratic world must weigh the motives behind Moscow and Peiping trade offensives. If there is a sincere desire to relax the tension of the Cold War and if Mr. Malenkov really wants to raise the pitifully low standard of living of the peoples behind the Iron and Bamboo Curtains, then perhaps some relaxation of the present embargo lists should be considered. The British, for example, have been selling the Soviets cables and various other manufactures made of copper.

However, the present Russian and Chinese efforts to promote trade with the Free World may be but a camouflage for a new strategy in the Cold War, aimed at splitting the Western Allies on the issue of trade rather than that of United Germany or of a European army. There is little evidence that the communist world and the free world will settle down to any peaceful living in the near future. Hence it is quite likely that we are merely entering a less virulent phase of the Cold War.

Whatever is done, the free world must see to it that no country becomes too dependent upon either the communist sources of raw materials or the communist market for its goods. A sudden reversal of communist policies could bring, in such a case, a near disaster, particularly in countries which, like Italy, have a large communist minority or which, like Japan, are literally living on borrowed time in respect to their living standards.

## New Peaks for Douglas Aircraft?

(*Continued from page* 621)

approximately $20 a share for the current fiscal year, on a payout of about 40%—established in the past two years—dividends of $8 a share could be expected. Such a rate would easily be supportable on the basis of projected earnings.

On an $8 dividend rate, the stock at current prices of around $100 a share would yield 8%. Obviously such a yield would be attractive if the higher dividend could be depended on indefinitely. However, with maximum military aircraft production probably reached in about two years, it would seem that payment of a dividend much higher than the present rate on Douglas could not be expected to continue much beyond the expiration of that period. (Please note that the price chart accompanying this article, of necessity prepared somewhat in advance of publication, does not show the latest bulge of the stock above 100.)

On the other hand, the dividend record of the company, at least since 1939, shows that dividends have been continued without interruption, which gives the company a somewhat exceptional position in this respect as compared with other aircraft manufacturers. Asuming that commercial aircraft production commences to gradually replace production for military use, which would be the prospect in a period of prolonged peace, it is likely that a substantial earning power could be regenerated, though on a more moderate level than the present abnormally high peaks.

On the basis of estimated 1954 earnings, Douglas is selling at only 5 times earnings and, hence, the present market price on face seems warranted on a short-term basis. However, the advance of the stock in the past year from 60 to above 100—would seem to have rather fully discounted the undoubted increase in earnings in sight. From the speculative viewpoint, therefore, the stock may be said to have lost a good part of its appeal. For investors inter-

ested principally in the longer range possibilities, it would probably be sound policy to await a good-sized market reaction in the stock though its present strong action hints that this may be some time off.

## Where Do 1953's Market Leaders Stand Today?

(*Continued from page* 619)

of payments this year for Toni acquisition should rouse hope of another generous extra.

LILY-TULIP CUP – Aggressiveness in development of new types of food containers and in expansion of volume in regular cup lines found reflection in an impressive upturn in earnings. Anticipation of benefits for stockholders in this leadership contributed to the rise in the shares. Hopes were realized in the recent approval of a 50 per cent stock dividend, which should pave the way for larger cash distributions.

MINNESOTA MINING & MANUFACTURING – Widespread popularity of growth stocks characterized last year's price movements, and the advance in this issue could be ascribed to its enviable record of development of new products on which long term gains could be based. Institutional investors, including pension funds and mutual funds, concentrated on stocks of this type. Despite the low return on dividends, the stock promises to continue in favor among these investors.

NATIONAL LEAD – The romance of titanium provided the spark that roused investment interest in this company. Jointly with Allegheny Ludlum Steel, the company owns Titanium Metals Corp., which promises to become one of the major producers of titanium metal, an exceptionally light material for which demand cannot be satisfied. It is especially essential in the jet fighter program. In addition, shares of this company have had appeal for growth because of indications of aggressive management.

ROHM & HAAS–Evidence of rapid growth in essential chemicals, combined with a comparatively small capitalization, gave impetus to the rise in shares of

(*Please turn to page* 640)

## Where do 1953's Market Leaders Stand Today

(*Continued from page* 639)

this concern. Favorable sales and earnings results attracted attention of institutional investors interested in growth issues. Expectations of a stock split preliminary to payment of higher dividends accounted for additional demand. The latter factor remains as a price stimulant despite some indications of keener competition and narrower margins in chemical lines.

SCOTT PAPER – Growth tendencies in essential paper products, along with satisfactory earnings and dividend factors, spurred demand for shares of this leader in toilet tissues, paper towels, etc. Efficiency in manufacturing operations and effectiveness of research have found reflection in results favored by astute investors. Here again, hopes of a larger distribution of earnings have created demand on the theory that a stock dividend would be logical. Such a development still seems possible.

SPENCER CHEMICAL – Strong growth trends in chemicals of which the company is an active producer as well as a good management record account for popularity of the stock. Plants have been located near sources of raw material and in areas adjacent to principal markets. Indications of exceptionally low costs have encouraged the prospect of long term growth. Anticipation of larger payments to stockholders as well as promise of above-average gains in production of new chemicals remain as sustaining influences.

SUTHERLAND PAPER—Recognition of this company's good qualities as a leading manufacturer in an essential industry, suggesting its attractiveness as a unit in a larger organization, probably accounted in large measure for popularity of the stock. Sales and earnings results supported enthusiastic expectations and the recent increase in dividends testified to management's confidence. Whether a merger with another company would be considered is problematical.

UNITED AIRCRAFT – Expectations of greatly increased earnings consistent with enlargement of shipments in the accelerated aircraft program spurred demand for this stock. Hopes of larger dividends were fulfilled. Moreover, plans for a "spinoff" of the Chance Vought division provided the effect of a stock split which had been considered a possibility. Approval of the latter distribution this year, along with benefits from lapse of EPT, well may continue to provide a stimulating influence.

VISKING CORP.—Here is another illustration of the effect of vigorous demand for a stock in a growth industry accelerated by a comparatively small capitalization. Not many individuals know that the company is a leading maker of cellulose casings for sausages, meat loaves and other types of processed meat. A high proportion of frankfurters is processed with the company's casings. This sort of business lends itself to rapid growth. Enthusiasm over potentialities accounts for the popularity of the stock.

WRIGLEY (WM.) JR. & CO.—Anticipation of continued growth in consumption of chewing gum, with a phenomenal increase in potential customers as the large baby population of recent years makes its presence felt, helps explain the evident popularity of this issue. Prospect of larger earnings this year in reflecting benefits of elimination of EPT undoubtedly was next in importance as a factor. Moreover, many investors favor the company's policy of paying dividends monthly. Favorable influences in this respect are continuing.

## The Struggle for Power in New York Central

(*Continued from page* 624)

petitive and were barred from having interlocking directorates.

This ruling apparently did not swerve Robert Young from his ambition to obtain control of Central. Back in November, 1951, he was quoted as saying that he planned to become chairman of New York Central's directorate, with Allan P. Kirby as the road's president. With this objective in mind, C. & O., during his regime as board chairman, continued to

amass New York Central stock, accumulating approximately 800,000 shares. This is slightly less than 12.5% of Central's outstanding stock, but makes C. & O. the road's largest stockholder, outdistancing Union Pacific's 160,000 Central shares.

How much good this C. & O. stock interest in Central will do Young in an attempt at obtaining control of the System is a moot question. All of C. & O. holdings of Central shares, pursuant to ICC order, are deposited in a voting trust with Chase National Bank, N. Y., as voting trustee. This brings us back to the attitude the ICC might adopt toward Young's plan. Will it oppose the voting of these shares by the trustee in favor of Young and his associates? Only the ICC can clear up the doubt. Lay reasoning, however, leads to the conclusion that ICC is likely to be against voting these deposited shares in favor of Young and Kirby. At the time Alleghany acquired its C. & O. interest and took over management of the road, the ICC classified the corporation as a railroad. Until this ruling is rescinded, Alleghany will continue under ICC supervision.

Assuming, however, whatever legal obstacles which may exist are hurdled, it is doubtful that the Alleghany group—meaning Robert R. Young—will be able to take over Central's management without the backing of proxies of other stockholders in sufficient number to provide adequate voting strength. To get these represents a formidable task. Central has close to six and a half million outstanding shares. These are distributed among approximately 44,500 owners.

Some of the owners of New York Central will probably want to know what Mr. Young plans to do with their property should he succeed in taking over Central's management. Several years ago, Mr. Young is quoted as saying his first move would be to modernize the road's passenger service by putting "Train X", the low light-weight European train on all Central's passenger runs. Putting "Train X" in service on this scale would, it has been said, cost somewhere around a quarter of a billion dollars, the funds to be obtained through issuance of equipment trust certificates. This would be quite a venture, but it is a soundly based belief that the ultimate objective of Mr. Young is the carrying out of his long cherished dream of a consolidation of the New York Central System with the Chesapeake & Ohio. Shortly after the ICC rejected his request for permission to become a Central Director, he announced that C. & O. was planning to petition the ICC to approve a three-way merger of C. & O. New York Central and the Virginian Ry. This was in May, 1948, but in December of that year, Mr. W. J. T. Tuohy, C. & O. President, stated that no merger with Central would be proposed at that time.

Conditions may have changed since then. It is also possible that Mr. Young now sees in New York Central an attractive substitute for the Nickel Plate—the New York, Chicago & St. Louis R. R.—that he planned to merge, together with the Pere Marquette and the Wheeling & Lake Erie, acquired previously by Nickel Plate, with C. & O. The ICC had sanctioned the plan but Nickel Plate failed to become a part of the rail empire that was in the making. Nickel Plate's preferred stockholders, who then had $85.50 due them in back dividends, accumulating since 1932, balked at terms proffered them with the result that C. & O. dropped Nickel Plate from its plan. Later C. & O. distributed its holdings of Nickel Plate shares to its stockholders in the form of a special dividend. By March, 1951, Nickel Plate had cleaned up all of its preferred dividend arrears, split its common 5-for-1, and in 1952, put these latter shares on a $2 annual dividend basis. This rate was maintained through 1953, stockholders receiving in addition a special distribution of 10% in common stock.

It may be that Mr. Young is of the opinion that New York Central, a competitor of Nickel Plate, under his guidance might over a period of time emulate the performance of Nickel Plate in recent years. Some of Central's stockholders may agree with him, their opinion being dominated to a degree by Central's large unprofitable passenger business creating a considerable earnings handicap. On the other hand, dieselization and other improvements, have raised Central's operating efficiency. Aided by increased freight movements in 1953, the road was able to report net earnings equal to $5.27 a share, the best of any of the postwar years, and com-

*(Please turn to page 642)*

## The Struggle for Power in N. Y. Central

(*Continued from page* 641)

pares with $3.83 a share reported for 1952.

Since 1945, New York Central and its affiliates' capital expenditures, including about $93 million in 1953, have totalled $700 million. Expenditures during the current year, management says, will be substantially reduced, but increased operating benefits are looked for through greater economies accruing through the enlarged fleet of diesel equipment. The road in 1953 further reduced operating ratio to 82.8%, from 84.5% in the previous year, and from peak 90.53% in 1946. Dividends of $1.00 a share annually, the current rate, are likely to be continued through 1954, but any appreciable drop in this year's earnings would create uncertainty as to maintenance of these payments because of Central's heavy debt burden, aside from maturing equipment obligations, and the comparatively weak working capital position.

## Which Rails Are in Best . . . Poorest—Position?

(*Continued from page* 623)

"upstream" switches can be made by investors who are willing to accept moderately lower income return in exchange for better capital appreciation possibilities. A few examples of such possible "switches" are Great Northern into Seaboard Air Line or Southern Railway, and Northern Pacific into Louisville & Nashville on approximately an even basis. From a market standpoint, average prices of the group declined 25% during the past year and are currently 22% below the 1953-1954 highs. Average earnings per share of this group dropped 29% below 1952 levels in the final four months of last year.

A few brief words appear to be in order as to why the ten stocks in this group are rated as only average:

**Comment**

*Baltimore & Ohio*

Good control of expenses and probably the most favorable long term outlook among eastern roads, but capitalization heavily leveraged, large sinking and capital funds limit net available for the common, and revenues still dependent to a marked degree on coal and heavy manufactured goods.

*Chesapeake & Ohio*

A steadily decreasing dependence upon coal as merchandise traffic is built up and an effective hold on expenses, but finances need strengthening and dividend pay-out is high (50% in 1953).

*Erie*

Relative stability of earnings and 100% dieselization, but traffic growth relatively limited.

*Reading*

Same as for Erie, except that full dieselization has some way to go and $2 annual dividend rate only 29% of 1953 earnings.

*Great Northern*

An excellent property from an operating and financial standpoint, but 1954 revenues and earnings expected to be reduced by indicated lower iron ore, grain and lumber traffic.

*Gulf, Mobile & Ohio and St. Louis-San Francisco*

In good growth territories, but earning power not yet seasoned and dividend records irregular.

*New York, Chicago & St. Louis*

An efficiently operated railroad with small extent of freight dieselization giving room for considerable future operating economies, but its position vulnerable to closer liaison of New York Central and Chesapeake & Ohio

*Northern Pacific*

Expense ratios high, dividend payout above-average and lower lumber and grain traffic indicated in 1954. Oil possibilities of Williston Basin land holdings interesting, but pretty well discounted in present market price.

*Southern Pacific*

The company's territory of the South West and the Pacific Coast outstanding for growth, but operating performance below average for its region in 1953.

For this group, no dividend increases appear likely in 1954, although present annual rates should hold. Average earnings per share in the last four months of 1953 slumped 29% below the previous year.

### Less Favorably Situated Stocks

We now turn to the poor group and find surprisingly enough that it is selling at the relatively high multiple of 6.4 times earnings in 1953 (before capital and sinking funds) to yield only 5.7% on present dividend rates, which require 36% of earnings before funds. (Six of the ten companies in this group, i.e., Boston & Maine, St. Paul, Chicago & North Western, Lackawanna, Lehigh Valley and New Haven, have been through Section 77 reorganizations or Mahaffie Act recapitalizations. Accordingly, earnings actually available for payment of common dividends are reduced by substantially large deductions for capital and sinking funds. On an available earnings basis, earnings per share of this group would have reduced to $2.13 from $3.09 on an actually reported basis and the price X earnings would have been raised to 9.3 times).

The average 1953 transportation ratio was a high 39% and only 7.8% of gross revenues was carried through to net vs. 10.9% for the average roads and 11.4% for the good roads. It is in this classification that dividend reductions are most likely this year with the St. Paul, Lehigh Valley and Pennsylvania appearing the most vulnerable in this respect. Market prices of this group, which includes three non-dividend payers (Boston & Maine, Chicago & North Western and New Haven), declined 26% on the average between December 31, 1952 and 1953 and are currently also 26% below the 1953-1954 highs. Earn-

**Railroad Performance by Regions**

| Region | Gross Revenues (000s) 1953 | Gross Revenues (000s) 1952 | % Change | Net Operating Income (000s) 1953 | Net Operating Income (000s) 1952 | % Change | Operating Ratio 1953 | Operating Ratio 1952 |
|---|---|---|---|---|---|---|---|---|
| Eastern | $313,609 | $345,887 | — 9.3% | $24,507 | $ 37,730 | —35.0% | 82.7% | 76.2% |
| % Class 1 | 37.7% | 38.1% | | 31.2% | 34.9% | | | |
| Pocahontas | $ 45,992 | $ 55,427 | —17.0% | $ 6,911 | $ 11,388 | —39.3% | 76.1% | 61.8% |
| % Class 1 | 5.5% | 6.1% | | 8.8% | 10.3% | | | |
| Southern | $117,904 | $126,615 | — 6.9% | $14,590 | $ 18,327 | —20.4% | 76.0% | 71.4% |
| % Class 1 | 14.2% | 13.9% | | 18.6% | 16.5% | | | |
| Western | $354,858 | $380,086 | — 6.6% | $32,518 | $ 43,578 | —25.4% | 77.1% | 71.8% |
| % Class 1 | 42.6% | 41.9% | | 41.4% | 39.2% | | | |
| Total Class 1 | $832,363 | $908,015 | — 8.3% | $78,526 | $111,022 | —29.3% | 79.0% | 72.8% |

ings per share of this group fell 36% below the previous year in the final four months of 1953.

The six eastern roads in this group (Boston & Maine, Lackawanna, Lehigh Valley, New York Central, New Haven and Pennsylvania) have waged a losing fight since last August against their familiar basic weaknesses of heavy yard and switching expenses and substantial passenger operating deficits with consequent high wage ratios. As an example of the difficulties with which these carriers have to contend in a period of traffic decline, consider the December earnings statement of Pennsylvania, largest of Class 1 railroads in gross revenues. Gross revenues showed a year-to-year drop of $17 million, or 9%, but operating expenses were reduced by only $4.7 million, or 6%, with the result that an operating deficit of $800,000 was reported vs. a net operating income of $2 million in December, 1952.

St. Paul and Chicago & North Western are handicapped by low traffic density and dependence upon agricultural conditions in the sparsely populated North West. (In 1953, the North Western reported a deficit on the common even before capital and sinking funds). The common stocks of the two Pocahontas roads, Norfolk & Western and Virginian, for many years were regarded as blue chips in the railroad field. However, the gradual erosion of consumer demand for these two carriers' principal commodity, bituminous coal, by the inroads of natural gas and oil have gradually diminished earnings to the point where dividend coverage is becoming none too comfortable. Norfolk & Western's 1953 earnings of $4.83 per share compared with its $3.50 dividend rate, including a 50¢ year-end extra, and Virginian's $3.02 earnings with a $2.50 regular annual dividend rate.

Particularly in view of the fact that the leverage factor inherent in the capitalizations of the marginal roads is now working in reverse, it might be effective to switch from the weak group into the next higher classification, the average group. Transfers that appear worthwhile to give better appreciation possibilities over the longer term are New Haven, now artificially inflated by a proxy fight, and Virginian into Gulf, Mobile & Ohio, Pennsylvania into Baltimore & Ohio, and Norfolk & Western into Southern Pacific.



## Liquidating Government's $30 Billion Business Empire

(*Continued from page* 607)

Government's first large-scale venture into the production, distribution and marketing of electric power which, according to its proponents, was to be a "power yardstick" as well as a beneficient controller of floods, aid to navigation and general economic salvation of an area generally thought to be in sore need of such salvation.

There can be no doubt that TVA has been the economic salvation of the area over which it sprawls, but it has been so at the expense of the 44 States out of the region of its operations. TVA beneficiaries have prospered at the expense of the taxpayers of the other 44 States of the Union. In addition, TVA—often described as "creeping socialism"—has branched out into fields beyond its original intent, including the manufacture of fertilizers and agricultural chemicals.

### Losses on TVA

If one would make a careful analysis of TVA and its operations he would find that the "yardstick" is some 20 inches short of being a yardstick, with those 20 inches being absorbed by taxpayers to the tune of around $285 million in the past 19 years. This figure represents Government's net loss on the operation during that period although "multiple entry" bookkeeping, whereby much of the capitalization of TVA

(*Please turn to page* 644)

## Liquidating Government's $30 Billion Business Empire

(*Continued from page* 643)

is charged off to "non-reimbursable" benefits, such as flood control, navigation, fish and wildlife, even recreation, causes the operation to show a bookkeeping profit. Further, TVA pays no taxes beyond token payments "in lieu of taxes," all of which are far below the tax levies paid by its largest private predecessor, The Commonwealth & Southern Corp.

The writer has dealt in some detail with two huge Government operations that could well be turned back to private enterprise—RFC and TVA. There are many others. If they are not to be turned back to private enterprise, the Government could liquidate them, especially those which are not directly—or even indirectly—functions of the Federal Government. In this area we have vast lending and insurance programs. Their liquidation would release billions for reduction of the national debt, at the same time cautioning the public that its future proposals must be founded in good business as Uncle Sam will no longer pick up the tab if they can't pan out.

As the researcher delves into Government operations in the field of private enterprise, he finds himself confronted with a mass of data that would confound the latest development in electronic calculators. Thus far, hearings before a sub-committee of the House Committee on Government Operations have uncovered some hundreds of Government ventures rightfully belonging to private enterprise. The accompanying table will give the reader a partial view of the scope of Government's invasion of fields belonging to private initiative.

The newly recreated Hoover Commission, now delving into many Government operations, including those dealt with here, has many task forces in the field—all of them making comprehensive studies. Although there have been no published revelations of the Commission's findings, the writer is certain that Government competition with private enterprise is a major topic of study. What the Commission will find and recommend is anyone's guess, but there can be no doubt the Commission will do a thorough job and come up with recommendations which, if carried out by the Congress, will cut the national debt by some $3 billion or $4 billion and at the same time cut the annual tax bill by $1.2 billion.

There are hopeful omens that Government will get out of business, and give business an opportunity to reciprocate through increased earnings which in turn mean increased revenues for the Federal Government through income tax collections. The writer would briefly review the omens:

The Commerce Department has disposed of the losing, costly Inland Waterways Corp.; Interior Department is passing along its hotels to private operators; The RFC, to die June 30, has concrete plans to put its loans in the hands of private bankers; our synthetic rubber industry is moving over to private industry; Defense is closing retail operations belonging in the private realm; there is strong talk of disposing of the power holdings of TVA—further, the current budget asks no appropriation for new facilities for this power venture; the Government's telegraph network is going back to private enterprise as the General Services Administration contracts with Western Union to operate the system. Other moves are in the making, some of which will break in the daily press before this periodical can reach the reader.

As the Administration moves onward to get Government out of business, it meets increasing Congressional opposition. That is to be expected. Without going into elaborate detail, it can be over-simplified by stating that Congressmen are actuated by local motives, more than National benefits. In brief, the national solons representing the TVA area, let us say, will resist any and all attempts to dispose of it. Selfishly, perhaps understandably, they are content that the New Yorker, the Pennsylvanian, and others "make up the difference" through taxation while constituencies within the TVA area have the blessings of low-cost power. What the writer says here is applicable to countless other Government-owned business enterprises throughout most of the 48 States.

The start has been made—the start to get Government out of business. How far it can proceed is up to the individual, the influence he can have with his representative in Congress, and it will be Congress, in the final analysis, which determines how many of these Government enterprises are to be handed back to private operators, how many are to be retained at the taxpayer's cost.

Gains to be had if Government gets out of business are four-fold:

First, sale of Government enterprises to private investors can yield from $3 billion to $4 billion for reduction of the national debt, now close to the statutory $275 billion limit.

Second, reduction of this national debt will reduce the drain on taxpayers to pay interest on the debt.

Third, business-type operations which, under Federal ownership, were tax exempt, will begin to pay taxes—Federal income and State property levies—when passed along to private enterprise.

Last, but by no means least, the disposal of Government enterprises will be a definite check to the growing tide of Socialism which, far too often, has enjoyed public and Congressional support; the former through ignorance, the latter through a play for votes, regardless of source or inspiration.

## When Union Leaders Wield Vast Financial Power — What Then?

(*Continued from page* 602)

Now shortly before the International Association of Machinists had gained control of the Mt. Vernon Savings Bank of Washington. Mr. Vernon moved in and took over from Bankers Trust. The ship repair shop kept operating at full capacity giving employment to many on strike and making it possible to keep the men out.

That was the beginning, in 1920, of the great, rejected opportunity. It was the International Association of Machinists which controlled the Mt. Vernon Savings, the first labor bank and one of the results of the Norfolk adventure was that the President of Mexico invited the Machinists to set up a system to oversee purchases of machine tools, locomotives, pumps, primping presses and the like in the United States. Mexico had been getting cast iron parts instead of steel. Employing organizations protested to the State Department which refused to interfere. Ger-

man, English and other foreign manufacturers were trying to reach the Mexican market.

The second labor bank was opened November 1, 1920 by the Brotherhood of Locomotive Engineers in Cleveland. Starting with $650,000 of resources, on June 30, 1923 its resources stood at $22,333,000. When the Order of Railroad Telegraphers opened a bank at St. Louis in 1921 it received deposits exceeding $1,500,000 the first day. The story goes on and on. Labor unions were opening banks in many places.

In Cleveland the Clearing House Association became alarmed when the Brotherhood bank offered 4 per cent for public deposits and received several millions of State and county funds. Other banks had been paying 3½ per cent. The Brotherhood bank did not belong to the Clearing House Association and that organization began a campaign to undermine confidence in the labor bank, saying that such high rates of interest could not be safely paid. The labor bank answered with advertising saying that, inasmuch as the Federal Reserve System was in operation the only reason for the existence of the Clearing House Association was to perpetuate a banking monopoly. The Clearing house withdrew promptly.

The Brotherhood branched out widely, invading New York by buying the Empire Trust Company. Also, it set up the Brotherhood Investment Company with $10,000,000 capital. Then, in 1923, came a big coal strike with tremendous unemployment and hardship. The Brotherhood of Locomotive Engineers set up the Coal River Colleries Company with $2,000,000 capital to take over 6,000 acres of West Virginia coal lands. The company paid the union scale.

The story is too long to more than touch upon but everywhere labor banks came to the aid of struck friendly employers, enabling them to remain in operation so long as they paid the union scale. The system was affecting all sorts of operations. A secondary boycott was involved, too. A labor bank would withdraw support from a plant if that plant made deliveries to a closed shop customer. All these operations were in a period of deep unemployment. The bank of the Amalgamated Clothing Workers in New York lent $1,000,000 to the dress industry to sustain employment, of course, at the union scale. It should also be noted that in plants sustained by labor bank loans neither stretch-out nor featherbedding was tolerated. It was labor's money that was involved!

In this period of strikes and the open shop drive unemployment reached 5,735,000 at a time when the population was only about 106,000,000 and yet deposits in labor banks mounted by leaps and bounds—for that period of relatively small figures. Deposits in other banks fell! Indeed, in one of the depressed years a bank closed its doors every day of the year.

Richard Boeckel in his book, *Labor's Money*, published in 1924, explains: "The labor banks seek to use the money given into their care to provide steady employment, at fair money wages for the workers on the one hand and, on the other, to increase the purchasing power of money wages by requiring maximum production and efficient distribution at reasonable margins of profit by those to whom credits are extended."

*The Railway Age*, following a wage increase wrote: "The total par value of railroad stocks outstanding in the hands of the public on December 31, 1917, was $6,583,000,000. The saving by railway employees of the recent *increase in their wages* would give them $625,000,000 for investment. On this basis, if they bought at par, they could easily, by investing all their savings (and dividends) in railway stocks become owners of a substantial majority of all the stock outstanding *within five years*." (Most of the stocks could be bought well below par.)

So it goes. In 1920 that first labor bank had but $160,000 capital. Today, the United Mineworkers of America controls the National Bank of Washington with resources of $120,000,000. This is but one of dozens, scores of banks partially or wholly controlled by labor.

So today, labor leaders recall that lost opportunity, lost very largely because there was no leadership strong enough to induce labor to hold on. These leaders with a foundation a thousand times stronger than it was then intend to hold on until economic control through outright ownership is indeed in their hands! That is the real meaning of this outstanding development.



## How Companies Diversify

(*Continued from page* 605)

surprise to note that the company's inter-corporate investments are in coal producers such as Island Creek Coal, Texas Pacific Coal and Pond Creek Pocahontas, while other investments are held in Texas Pacific Land Trust and Louisiana Land & Exploration. The latter company holds mineral leases and royalty interests on extensive acreages in Louisiana, its principal income being in the form of oil and gas royalties as well as profits under contracts with some of the largest oil companies for development of these leaseholds and other interests. Certain of its leases are sublet to the Freeport Sulphur Co., for exploration and development of sulphur deposits. Texas

(*Please turn to page* 646)

## How Companies Diversify Their Investments

(*Continued from page* 645)

Pacific Land Trust is also a holder of substantial tracts of Texas lands. Its principal revenues originate through royalties, rentals and other fees from oil and gas leases granted to various oil companies, including among others, Humble Oil & Refining, Pure Oil, Texas Co., Gulf Oil, and Phillips Petroleum.

Although these are direct investments by U.S. Smelting they represent but a segment, albeit an important one, of the company's interest in the oil industry. The company, sometime ago, set up an Oil Department and has been carrying out a long-range program of acquisition of properties, especially leases, among which are fairly large holdings in New Mexico and west Texas. A number of wells have already been brought in on the latter acreages, the most recent being completed last month with a calculated daily flowing potential of 946 barrels of 43 gravity oil. In addition to this direct activity, U.S. Smelting only last September extended its interest in the oil industry through the purchase of 10,000 shares of Anderson-Prichard Oil Corp., a fully integrated oil company, that has been showing consistent growth in every one of the last ten years or more.

Obviously, U.S. Smelting's objective is the gradual building of investments in fields apart from those in which the company has so long operated as a mining and smelting operator. This decision by management was reached five or six years ago. At that time, it should be borne in mind that stockholders were informed that the properties of a mining company are different from those of a manufacturing concern in that, in normal operations, they are being constantly used up; every ton of ore extracted brings closer the inevitable ultimate exhaustion of the mine producing it. This characteristic process of depletion must be offset by acquisition of or investment in new properties, and when the products of the properties are diversified, adverse conditions may affect some but others may remain immune. It is this same process of reasoning that undoubtedly has guided other mining companies in protecting their treasury assets by making investments in other properties to strengthen their position as mining companies or to provide diversification through entry into other fields.

Phelps Dodge, one of the largest of the copper producers, through its wholly-owned subsidiary fabricating copper products has achieved some diversification but this is broadened by its investments in American Metals Co., which provides further diversification because of its investments in several copper producing companies and the Climax Molybdenum Corp., in addition to its interests in potash deposits, and oil and gas properties, metal refineries with additional revenues being derived from American Metal's general trading in ores and metals. Phelps Dodge also has a stake in the oil industry through its investment in the Amerada Petroleum Corp.

Motivated by somewhat different reasons, but still giving them diversification through investments, many industrial companies have acquired interests in manufacturing companies, some of which are important customers of the investing corporation. A good example of this is Sharon Steel's holdings in Mullins Manufacturing, an important producer of steel kitchen equipment, stampings and other steel products, and its interest through ownership of stock in National Supply Co., one of the largest manufacturers of oil field equipment. Very much along the same line is Bethlehem Steel's investment in Rheem Manufacturing, a leading manufacturer of steel containers, underground steel storage and other types of tanks, and a variety of home appliances, including water heaters, furnaces and gas ranges.

By the same token, it was natural perhaps that American Brake Shoe, seeking diversification, should make an investment in the stock of Bucyrus-Erie, a leading manufacturer of excavating machinery and related tools and equipment. Although Brake Shoe is largely a manufacturer of brake shoes and other accessories sold to the railroads mostly as replacement parts, it is also a producer of products used by other industries, including farm implement and construction machinery. Its investment in Bucyrus-Erie, therefore, establishes a closer relationship with this equipment builder and at the same puts Brake Shoe in a position to also benefit from the operations of Bucyrus-Erie that are expected to hold relatively stable as a result of the broad road-building programs now being carried out and those that are planned by various state, county and other government divisions.

Other companies, seeking diversification through stock purchases, have also made investments in companies which, although operating in other fields, have a close relationship. General Precision Equipment, for instance, through one of its subsidiaries is a manufacturer of equipment for the motion picture industry so it is not out of the ordinary that the company should have an investment in that field through its ownership of 20th Century-Fox Film shares. Both Corning Glass Works and Owens-Illinois Glass have substantial stock investments in Owens-Corning Fiberglas Corp., the leader in research and development in the fiibrous glass field. In this connection, there is a link between General Motors and duPont deNemous which has an investment in GM that is represented by its ownership of 20 million shares of the highly diversified motor company. Du Pont made its initial investment in General Motors during the early years of World War I, increased its interests immediately following that war, regarding its commitments as an investment in a promising and productive segment of America's future.

Diversification through intercorporate investments has not been confined to industrial companies only. The railroads, too, have, for many years held stocks of other rail transportation companies. Some of these acquisitions were made with an eye to possible consolidations or to secure controlling ownership of leased lines. Others were made some years ago in anticipation of completion of a plan to consolidate eastern roads into several trunk line systems. Many of these investments go back beyond that to, in some cases, the early part of the Century. It was along about 1901 that Baltimore & Ohio began making investments in the Reading Co., and it was in 1927 that it acquired its Western Maryland shares. Some of Union Pacific's current holdings were acquired during the days around 1900, when the com-

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## How Companies Diversify Their Investments

(*Continued from page* 646)

pany reaching out in virtually all directions had acquired control of Southern Pacific which was later to be relinquished. Union Pacific, however, continues to hold substantial investments in other railroads, including Illinois Central, Pennsylvania R.R., and New York Central.

For the guidance of our readers, we present herewith two tabulations, one captioned "Companies with Investments in Varied Fields," and the other "Companies with Investments in Closely Related Fields". These tables, we believe, have a particular value, serving as indices to the degree of diversification attained by the companies listed by means of their investments in other companies. In many instances, these holdings contribute substantially to the investing companies' net earnings, and therefore, quite frequently have a direct bearing on the dividend policies and market action of the owning companies' shares. Favorable developments in the operations of a company in which an investment is held are often reflected in the market action in the shares of the investing company. These possibilities should be weighed by the individual investor when contemplating an investment in any of the companies listed.

It is suggested that the reader refer to the column entitled "current value of holdings per share". The computations set forth therein will enable him to compare market values, based on current prices, with the market values of shares in the "holding" company. Where the value of such holdings approximate or exceed the market price of the "holding" company's stock it is obvious the value of the latter is more likely to be influenced in proportion. On the other hand, where the investments represent only a small fraction of the market price of the "holding" company's shares, as is the case in a number of the stocks listed in the table, the direct influence is of much less significance. The same reasoning applies to the income that may be derived from such investment holdings. Where income from these sources is very large it tends to exert a substantial influence on the dividend payments of the company which owns the investment.

A number of the issues listed afford opportunities to acquire sound, dividend paying stocks, having the added advantage of furnishing diversification because of their investments in other companies. Consideration should be given to the character of the stocks owned, their earning power, and growth potentials. In the final analysis, however, investment decisions should be based primarily on the merits of the investing company. In this connection, we have singled out a few companies in the list which we have designated with an asterisk that, in our opinion, have conspicuous growth possibilities.

## Why Is Market Disregarding Business Outlook?

(*Continued fro mpage* 599)

at present. There are no signs that recession has run its course. Current tendencies in the automobile and steel industries, in retail trade and in other indicators raise a question whether 1954 economic adjustment will be quite so mild and end so soon (next autumn is projected as the turn) as the Administration has estimated in formulating over-all policy.

Certainly there is in any event more of a test for the economy ahead, with more conclusive light on the outcome unlikely before mid-year, if not before autumn. The situation requires more, not less, conservatism in over-all investment policy, for holding ample buying power in reserve, for continuing close selectivity in portfolio management.

—Monday, February 15

## The Trend of Events

(*Continued from page* 596)

—last in line.

A letter from the president or chairman should begin the body of the annual report. This must be a straightforward recitation of the events of the past year, and a frank appraisal of the one to come. Here the public relations counsel has a legitimate place. A company official, accustomed to stating a case before a dozen or a score of directors, each of whose approaches to company matters is familiar, may lose himself in the transition to addressing scores of thousands of stockholders drawn from every walk of life—although there are company presidents who can talk with equal ease and force to every audience. Public relations assistance must not mean softening the bad news and accentuating the good. After all, the president of the company stands here as an employee reporting to his employers.

Continuing, a financial and operating review should cover sales, earnings, changes in working capital, dividends, and any alterations of the capital structure. This is the place for charts and graphs. The sweep of a chart can show progress—or lack of it—as nothing else can. Perhaps it helps to have little figures climbing the hills and sliding into the valleys of corporate history, in addition, but we doubt it. Somewhere in this section of the report changes in working capital, or in earned surplus, should be put in one piece in one place in a conspicuously labeled box.

Then should come what is irreverently termed the company's tombstone—its directors and officers — and lastly the formal balance sheet and income statement, with the auditor's notes.

The last half of an annual report brochure — after the report proper — can well be devoted to some feature of the company's operations; research, a new plant, product, or process; simply a listing and pictures of plants and goods produced.

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# In Which Group Do Your Securities Fall?

- **1. Securities which have shared only slightly in the recovery since September, 1953, and for which the future is not promising.**
- **2. Securities which have fared reasonably well in recent months — but where only limited expansion is likely in the future.**
- **3. Securities which have already advanced substantially and for which further strong gains are likely.**
- **4. Securities which have participated lightly in recovery but are now ready to move ahead in view of improved 1954 prospects.**

Are you retaining too many securities in Groups One and Two which should be eliminated and replaced with appropriate investments in Groups Three and Four?

Our Analyses of thousands of substantial investment portfolios reveal that the average list is comprised of a miscellaneous collection of stocks and bonds—without balanced diversification—often failing to meet the investor's income needs—all too frequently lacking strong appreciation potentialities.

We regard the present as an opportune point in the market to arrange a rounded program for keeping your funds diversified among leading companies in industries with a promising outlook for sustained earnings and dividends under 1954 conditions.

As a first step toward increasing your profit and income, we invite you to submit your security holdings for our preliminary review—*entirely without obligation*—if they are worth $20,000 or more.

Our survey will point out various of your less attractive holdings, and some of your securities to be retained only temporarily. It will tell you how our personal supervision can assist you to strengthen your diversification, income and the enhancement possibilities of your account. We will evaluate your list and quote an exact annual fee for our service.

If you have not already done so—send us a list of your securities. Give the size of each commitment and your objectives. All information will be held in strict confidence. This offer is open only to responsible investors who are interested in learning more about our investment counsel.

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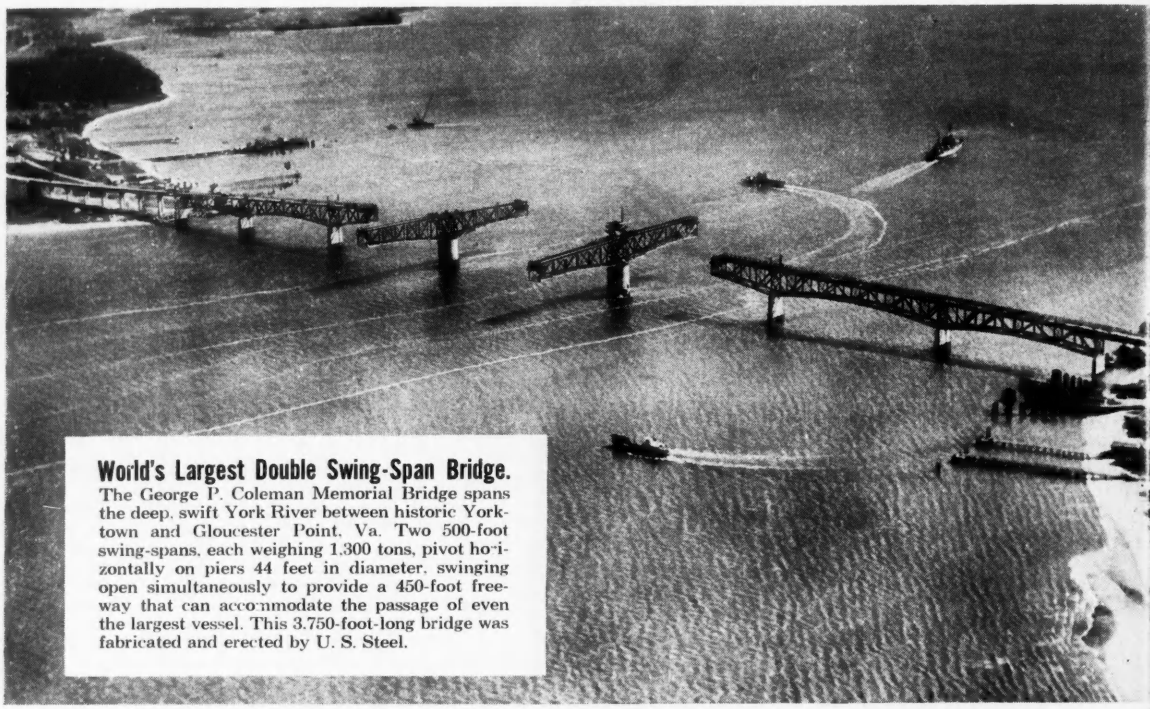

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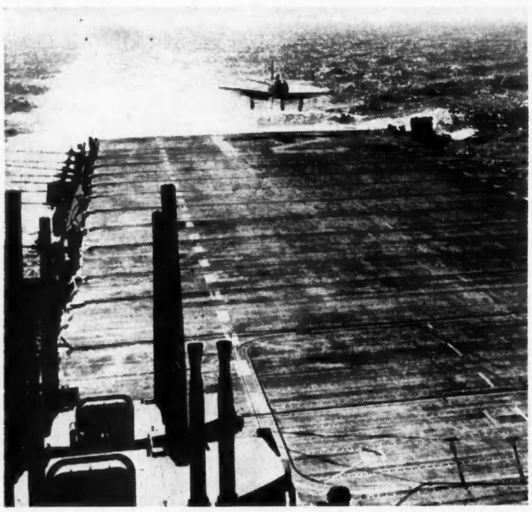

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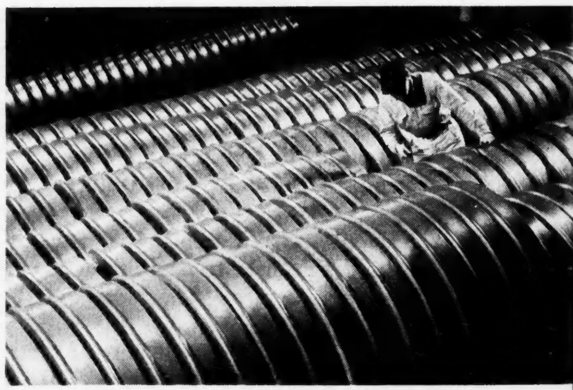

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